

GOVERNANCE COMMITTEE

WEDNESDAY, 21ST JUNE 2017, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

AGENDA

APOLOGIES

- | | | |
|---|--|-----------------|
| 1 | MINUTES OF MEETING WEDNESDAY, 22 MARCH 2017 OF GOVERNANCE COMMITTEE | (Pages 3 - 8) |
| 2 | DECLARATIONS OF ANY INTERESTS

Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda.

If you have a pecuniary interest you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter. | |
| 3 | DRAFT STATEMENT OF ACCOUNTS 2016/17

Report of the Chief Finance Officer (to follow) | |
| 4 | TREASURY MANAGEMENT ANNUAL REPORT 2016/17

Report of the Chief Finance Officer (enclosed) | (Pages 9 - 14) |
| 5 | CHARITY AND TRUST ACCOUNTS 2016/17

Report of the Chief Finance Officer (enclosed) | (Pages 15 - 22) |
| 6 | ANNUAL GOVERNANCE STATEMENT 2016/17

Report of the Director of Policy and Governance (enclosed) | (Pages 23 - 36) |
| 7 | STRATEGIC RISK REGISTER 2017

Report of the Director of Policy and Governance (enclosed) | (Pages 37 - 48) |
| 8 | COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

Report of the Head of Shared Assurance Services (enclosed) | (Pages 49 - 64) |

9 **INTERNAL AUDIT ANNUAL REPORT 2016/17**

(Pages 65 - 76)

Report of the Head of Shared Assurance Services (enclosed)

10 **RIPA APPLICATION UPDATE**

The Monitoring Officer will present a verbal report at the meeting.

11 **ANY URGENT BUSINESS PREVIOUSLY AGREED WITH THE CHAIR**

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Gordon France, Danny Gee, Debra Platt and Kim Snape.

If you need this information in a different format, such as larger print or translation, please get in touch on 515151 or chorley.gov.uk



MINUTES OF GOVERNANCE COMMITTEE

MEETING DATE Wednesday, 22 March 2017

MEMBERS PRESENT: Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Gordon France, Margaret France, Danny Gee and Debra Platt

OFFICERS: Gary Hall (Chief Executive/Statutory Finance Officer), Garry Barclay (Head of Shared Assurance Services), Michael Jackson (Principal Financial Accountant) and Dawn Highton (Principal Auditor)

APOLOGIES: Councillor Paul Leadbetter

OTHER MEMBERS: Councillor Peter Ripley (Independent Member) and Simon Hardman (Grant Thornton UK LLP)

17.G.72 Minutes of meeting Wednesday, 25 January 2017 of Governance Committee

RESOLVED – That the minutes of the Governance Committee held on 25 January 2017 be held as a correct record for signing by the Chair.

17.G.73 Declarations of Any Interests

There were no declarations of any interest.

17.G.75 Audit Plan - Chorley Borough Council 2016/17

The External Auditors, Grant Thornton, gave an overview of the planned scope and timing of the audit for the year ending 31 March 2017, allowing Members to understand the key requirements in bringing the plan together and the risks and consequences of the work being carried out.

The aim was to complete all substantive audit work as part of the financial statements by 31 July 2017, and that as part of their opinion, consideration would be given to whether the authorities financial statements accurately reflect the financial reporting changes in the 2017/18 Code.

The audit focused on risks and the Committee's attention was drawn to the following significant risks that had been identified as part of the process:

- Valuation of property, plant and equipment
- Valuation of pension fund net liability

Other risks identified included the changes to the presentation of local authority financial statements. The original aim had been to streamline the financial statements

and improve accessibility to the user, which had resulted in changes to the 2016/17 Code of Practice. The changes affected the presentation of income and expenditure in the financial statements and associated disclosure notes.

The Code requires the External Auditors to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources, known as the Value for Money (VfM) Conclusion. It was reported that the results of their VfM audit work and key messages arising would be reported in the Audit Findings Report and Audit Letter. A conclusion on the Councils financial statements would be given by 30 September 2017.

As a result of an initial risk assessment, two areas of significant risks had been identified for further investigation:

- Medium term financial planning, and
- Risk management arrangements

Details were provided within the report of the work proposed to address these risks.

The Chief Executive commented that these areas were likely to be considered by all local authorities in view of current budget issues. He was however, confident that the Council could deliver as Chorley Councillors make collective, non-political decisions about such major issues.

A timetable of the activity for the next twelve months along with information on their audit fees was also provided for the Committee's information.

RESOLVED – That the report be noted.

17.G.76 Annual Audit Letter 2015/16

The Committee received a report of our external auditor that provided a summary of the work carried out by them at Chorley Council for the year ended 31 March 2016.

The letter communicated key messages to the Council and external stakeholders, including members of the public. The report includes the audit conclusions which were provided in relation to 2016. Members were pleased to note that there were no findings of any concern.

Grant Thornton wished to extend their appreciation for the assistance and co-operation provided to them during the audit by the Council's staff. Gareth Winstanley had commented on how much he had enjoyed working with Chorley over the past five years and wanted to pass on his thanks to the finance team and the Committee.

RESOLVED - That the report be noted.

17.G.77 Certification Work for year ended 31 March 2016

The External Auditors were required to certify the Housing Benefit subsidy claim for 2015/16 relating to expenditure of £26.2 million submitted by Chorley Council. Details of the claim certified was appended to the report and confirmed that no errors were identified that impacted on subsidy.

RESOLVED – That the report be noted.

17.G.78 Governance Committee Progress and Update

The Committee received a report that showed the progress made by our External Auditors in delivering their responsibilities. The report also provided a summary of emerging national issues and developments that may be relevant to the Council and included a number of challenge questions in relation to these issues that the Committee may wish to consider.

A recent national report on Income Generation included a case study on Chorley Council's purchase of Market Walk. In response to the Chair, it was explained that there was a mixed picture regarding other authorities exploring income generation schemes.

Grant Thornton had delivered some financial account workshops that Chorley Council staff had attended.

RESOLVED – That the report be noted.

17.G.79 Understanding Local Authority Financial Statements

The Chief Executive submitted a report on understanding local authority financial statements. Following feedback from consultations from local authority accounts preparers and the working group, the Telling the Story consultation set out proposals for change that CIPFA/LASAAC considers will reconnect the financial statements of local authorities with the way those authorities are both organised and funded.

The changes to the 2016/17 Code therefore has two main strands:

- To allow local authorities to report on the same basis as they are organised by breaking the formal link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement
- To introduce a new Expenditure and Funding analysis which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the Comprehensive Income and Expenditure Statement in a way that is accessible to the lay reader. This analysis is supported by a streamlined Movement in Reserves Statement that will replace the current segmental reporting note.

The changes to the Code will for the first time allow local authorities to bring together the funding framework and the accounting framework in one analysis.

It was highlighted to Members the different formats that the newly presented information would take and officers advocated the reading of the CIPFA documentation to gain a better understanding of the changes. It was also suggested that Governance Committee Members would benefit from a training session on this topic.

RESOLVED - That the report be noted.

17.G.80 Fighting Fraud and Corruption Locally - The Local Government Counter Fraud & Corruption Strategy 2016 - 2019

The Head of Shared Assurance Services presented a report that evaluated the Council's compliance with Fighting Fraud & Corruption Locally – The Local

Government Counter Fraud & Corruption Strategy 2016-2019. The report also presented an analysis showing the Council's existing compliance with the Strategy together with an action plan to address any areas of non-compliance.

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. Its production and subsequent implementation is overseen by an independent board, which includes representation from key stakeholders. The board commissioned the drafting and publication of the strategy from the CIPFA Counter Fraud Centre.

The 2016 Annual Governance Statement contained an action to undertake a review to ensure compliance with the requirements contained within the Fighting Fraud & Corruption Locally – The local government counter fraud and corruption strategy and companion. This review had now been undertaken and it had been highlighted that there were four requirements where the Council's arrangements could be strengthened and details of the further action required was detailed within the report.

RESOLVED – That the report be noted.

17.G.81 Internal Audit Plan 2017/18

The Committee received a report of the Head of Shared Assurance Services that reminded members of their respective roles of managers and Internal Audit to maintain a sound system of governance and internal control within the Council. The report also sought approval of the 2017/18 Internal Audit Plan.

The 2017/18 Internal Audit Plan contained the programme of reviews for the next financial year and was appended to the report. The Plan had been constructed following an assessment of audit need by considering a range of factors, such as significant changes in staffing, systems and procedures, the length of time since an area was last audited and items relating to the Corporate Strategy and Corporate Risk Register. There had also been extensive consultation within each service which had taken an overview of audit requirements.

As advised at the last Committee meeting, the team would be introducing a risk based approach to auditing from 2017/18 onwards. This approach is to encourage greater ownership of risk and control issues within services and to optimise the benefits from the Internal Audit Service. Using this revised methodology the team will audit all the Council's CRITICAL systems, and some MAJOR systems will be audited over the next two years.

RESOLVED – That the 2017/18 Internal Audit Plan be approved.

17.G.82 Code of Corporate Governance: Update

The Director of Governance and Policy submitted a report to advise members of changes made to the Council's Code of Corporate Governance that was appended to the report.

The Council are required to adopt a Code of Corporate Governance which demonstrates how the authority complies with its legislative requirements, the principles of good governance and management processes. In 2007 CIPFA/SOLACE

issued a Framework and Guidance Document entitled Delivering Good Governance in Local Government which established the Framework and Principles in which the Code could operate. Chorley Council has used this framework as the basis for our Corporate Governance since that time.

In 2012, to reflect a change in the Regulations, CIPFA/SOLACE issued new guidance and an addendum to the Framework. The Framework Document was reissued in 2016 and established seven Core Principles to replace the previous six. The focus of the Framework was now to encourage Local Authorities to establish local codes with their own approaches to Corporate Governance and the new Framework sought to promote a customer focus in how the Council seeks to achieve its objectives.

RESOLVED – That the updated Code of Corporate Governance be approved and adopted.

17.G.83 Members Code of Conduct: Procedural Amendments

The Committee received a report of the Monitoring Officer that sought approval of proposed changes to the Council's arrangements for Dealing with Complaints about the Conduct of Elected Members.

A recent complaint had sought to withdraw a complaint concerning the conduct of an Elected Member after an Investigating Officers report had been completed. The report found that there had been a breach of the Code, however, the complainant had decided not to pursue the matter further.

In consultation with the Independent Person, the Monitoring Officer had concluded that without the engagement of the complainant, it would be difficult to evidence the complaint and it was jointly advised that the matter should be discontinued.

Whilst there is provision for a departure from the current procedure to not specifically address the situation. It was felt that additional guidance should be included to support Members and Officers in making a decision where the complainant seeks to withdraw. The Independent Person explained that this course of action would enable more serious cases to be followed up even where withdrawn.

RESOLVED – That the Arrangements for Dealing with Complaints about the Conduct of Elected Members be amended to include a specific provision for addressing the withdrawal of a complaint as detailed in paragraph 10 of this report and forwarded to full Council for approval to a change in the Constitution.

17.G.84 RIPA Application Update

It was reported that no RIPA applications had been made.

Chair

Date

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Report of	Meeting	Date
Chief Finance Officer	Governance Committee	21 June 2017

TREASURY MANAGEMENT ANNUAL REPORT 2016/17

PURPOSE OF REPORT

- To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2017.

RECOMMENDATION(S)

- That the report be noted.

EXECUTIVE SUMMARY OF REPORT

- This report advises on compliance with Prudential and Treasury Indicators in 2016/17. The return on investments for the year was 0.29%, which exceeded the benchmark of 0.24%. Details of borrowing and investments as at 31 March 2017 are presented.

Confidential report Please bold as appropriate	Yes	No

CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

BACKGROUND

- The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 1 March 2016), a mid-year review of that strategy (Governance Committee 25/1/2017), and finally this out-turn report.
- Revised Prudential and Treasury Indicators for 2016/17 were included in the report "Treasury Strategies and Prudential Indicators 2017/18 to 2019/20", presented to Special Council of 28 February 2017. Where relevant, comparisons with 2016/17 indicators in this report are to those approved most recently.

PRUDENTIAL INDICATORS7. Prudential Indicator: Capital Expenditure and Financing 2016/17

The Council's 2016/17 Capital Programme has been reported to Executive Cabinet and Council at intervals during the year. An analysis of capital expenditure in the year and variances from budgets, including rephasing of expenditure to 2016/17, is given in the report "Provisional Revenue and Capital Outturn 2016/17", being presented to the Executive Cabinet meeting of 22 June 2017.

In summary, capital expenditure for 2016/17 (including Revenue Expenditure Funded from Capital Under Statute, and land acquired by exchange) was £11.037m, compared to the estimate of £14.563m when the prudential indicator for the year was revised. Financing of capital expenditure in 2016/17, and the impact on the Capital Financing Requirement, is shown in the table below.

8. Prudential Indicator: Capital Financing Requirement 2016/17

The Capital Financing Requirement is a measure of the capital expenditure incurred by the Council which still has to be paid for. Financing of such expenditure is by a combination of external borrowing, generally loans from the Public Works Loan Board (PWLB), or temporary use of internal cash balances. Ultimately the expenditure has to be paid for and will be a charge to Council Tax payers. The Minimum Revenue Provision (MRP) charged to the Council's revenue budget each year is based on the CFR. Its impact on reducing the CFR is shown in the following table.

The revised CFR estimated for 2016/17 was £39.544m; therefore the actual CFR of £39.287m is £0.257m less than estimated.

	2015/16 £'000	2016/17 £'000
Opening Capital Financing Requirement	33,200	34,497
Capital investment		
Property, Plant and Equipment	2,232	9,897
Intangible Assets	0	12
Heritage Assets	99	44
Revenue Expenditure Funded from Capital under Statute	1,688	1,084
Total Capital Investment including REFFCUS	4,019	11,037
Sources of finance		
Capital Receipts	(185)	(141)
Capital Receipts - exchanged land	0	(2,490)
Government Grants and Other Contributions	(1,125)	(2,264)
Sums set aside from revenue		
Revenue Financing	(874)	(758)
Minimum Revenue Provision – statutory	(490)	(522)
Capital receipts applied to reduce CFR	(48)	(72)
Closing Capital Financing Requirement	34,497	39,287
Explanation of movements in year		
Increase in prudential borrowing	1,835	5,384
Provision made for debt repayment	(538)	(594)
Increase/(Decrease) in Capital Financing Requirement	1,297	4,790

9. Prudential Indicator: The CFR and Borrowing

In order to ensure that local authorities borrow only for capital purposes, the Prudential Code requires that borrowing net of investments should not exceed the CFR for the preceding year plus any anticipated increase in the current and the next two years.

Total borrowing at 31 March 2017 was £18.537m (excluding accrued interest), £11.537m of which was from PWLB, and £7.000m was temporary borrowing from other local authorities.

Cash balances (net of bank overdraft) invested at year-end were £0.955m (excluding accrued interest receivable), which meant that borrowing net of investments was £17.582m. This was lower than the estimated net figure of £24.115m because additional PWLB loans to finance new capital investment or to replace internal borrowing were not taken.

The net borrowing figure is £21.705m less than the Capital Financing Requirement quoted above, this figure representing the use of the Council's own cash to finance capital expenditure rather than taking additional external loans.

When the treasury strategy for 2016/17 was approved, it was anticipated that the interest rate for a 25-year PWLB loan would rise to 3.50% by the March quarter of 2017, and that the rate would continue to rise to 3.80% by the March quarter of 2019. Based on the expected interest rate increase, estimated borrowing for the financial year assumed that new external loans would be taken to replace use of internal cash before rates were increased, as well as to finance new capital investment projects during the year. This would have a 'carrying cost' in the short-term, because interest payable would exceed interest earned on the additional cash balance that would become available to invest; but it would have achieved savings in the longer term by borrowing before rates increased.

In practice, the likelihood of an immediate increase in rates diminished during 2016/17, and use of internal cash balances rather than new external loans continued. On 31 March 2017 the 25-year PWLB rate was 2.67% and there was no immediate prospect of a sharp increase. Rates will continue to be monitored, and bearing in mind the Council's capital investment plans additional external long-term borrowing will be required during 2017/18 as reflected in the current Treasury Strategy.

10. Compliance with Borrowing Limits (Operational Boundary & Authorised Limit)

The Prudential Indicators include two borrowing limits: the Operational Boundary, which reflects the expected borrowing position; and the Authorised Limit, which provided headroom to cater for unanticipated cash movements.

The revised Operational Boundary for 2016/17 was set at £27.130m, which included £27.115m external borrowing plus £0.015m other long-term liabilities. The actual total for the year was £18.553m (excluding accrued interest, but including other long-term liabilities), and the reason for the reduction was the continuing use of internal cash balances rather than external borrowing to finance capital expenditure. The prudential borrowing for the year of £5.384m was financed from internal balances. Use of internal cash balances in this way reduces the net cost of financing capital investment for the time being, though in the longer run additional external borrowing will be required.

The revised Authorised Limit was set at £30.130m, to allow a margin for temporary borrowing if required for cash management purposes. Actual borrowing and other long-term liabilities were £18.553m and therefore were below the limit.

11. Prudential Indicator: Ratio of Financing Costs to the Revenue Stream

This indicator identifies the percentage of the Council's income from Government grants, Council Tax, and the local share of business rates which has been used to meet interest costs and debt repayment (MRP). The estimate reported in the Treasury Strategy 2016/17 was 7.01%. The actual ratio was 5.61%. In calculating the actual ratio, a number of income and expenditure items have been excluded. One-off Government grants such as those relating to the December 2015 floods have been excluded, because they were not anticipated in the original estimate and therefore would have distorted the comparison. Interest received other than that earned on cash balances invested has been excluded because it was not in the estimated ratio. By excluding these non-recurring items, it is easier to focus on the reasons for the reduction in the ratio.

The main variance was in financing costs, which were lower than estimated because the carrying cost of taking new loans to replace internal borrowing was avoided. Interest receivable was less than estimated, but interest payable was reduced by a larger value.

The Revenue Stream excludes the income from assets such as Market Walk. In practice the income from Market Walk is more than covering the financing costs, but this cannot be reflected in the Prudential Indicator.

12. Prudential Indicator: Incremental Impact of Capital Investment Decisions

This indicator is concerned with the cumulative impact on the revenue budget of capital expenditure over a number of years. It is not possible to give a meaningful comparison against this indicator, other than when it is restated each year in the Treasury Strategy.

13. Treasury Position as at 31 March 2017

	As last reported (in 2017/18 Treasury Strategy)	Actual value as at 31 March 2017
	£'000	£'000
Borrowing at period start (excluding temporary borrowing for cash flow management)	12,800	12,800
Borrowing repaid in year	(1,263)	(1,263)
Borrowing in year	15,578	7,000
Total borrowing at period end **	27,115	18,537
Cash & investments **	(3,000)	(955)
** Excluding accrued interest		
Net Borrowing	24,115	17,582

Note: £7.0m borrowing was short-term for cash management purposes

14. Treasury Indicator: Upper Limit on Fixed Interest Rate Exposure

The Council is exposed to fixed interest rates on its borrowings. The upper limit on fixed interest rate exposure for 2016/17 was set at 100%, and is equivalent to the Operational Boundary. The limit was not breached.

15. Treasury Indicator: Upper Limit on Variable Interest Rate Exposure

The Council is exposed to variable interest rates on cash invested temporarily in money market funds and call accounts. The table below shows that on average £4.653m was invested each day in such funds. The upper limit on variable rate exposure for 2016/17 was set at £14m. This upper limit took account of the potential need for external borrowing to finance capital investment to replace use of internal cash balances. The effect would have been to increase cash available for investment, though at a much lower rate of interest than would have been paid on the new loans. As a consequence, no new loans were taken in 2016/17 and cash invested peaked at £11m.

16. Investments and Average Rate Achieved

The following table summarises investment activity and returns during 2016/17:

Details	Average Daily Investment £'000	Interest Earned £	Average Rate %
Money Market Funds	2,688	8,176	0.30
Call accounts	1,965	5,322	0.27
Sub Total – MMF/Call accounts	4,653	13,498	
Short Term deposits	0	0	n/a
Debt Management Office (DMO)	0	0	n/a
Total	4,653	13,498	0.29

The average interest earned of 0.29% exceeded the performance benchmark of 0.24%, being the 7-day London Inter-Bank Bid Rate (LIBID) plus 15%. Though use of the DMO was avoided, because the rate of interest earned is only 0.10% (compared to 0.25% in 2015/16), it was not possible to place cash balances in term deposits, which pay higher interest rates than call accounts and money market funds.

The average rate achieved in 2016/17 has reduced compared to 2015/16, when 0.44% was achieved and the 7-day LIBID was 0.40%. The likelihood is that the average rate achieved in 2017/18 will remain low, which tends to support the strategy of using internal cash balances where possible in order to minimise additional borrowing required to finance capital investment.

IMPLICATIONS OF REPORT

17. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

- 18. This report meets statutory reporting requirements. Its statistical content is consistent with the Council's draft financial accounts for the financial year 2016/17.

COMMENTS OF THE MONITORING OFFICER

- 19. The Monitoring Officer has no comments.

GARY HALL
 CHIEF EXECUTIVE & STATUTORY FINANCE OFFICER

Background Papers			
Document	Date	File	Place of Inspection
Treasury Strategy 2016/17 Treasury Strategy 2017/18	01/3/16 28/2/17		Town Hall

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	12 June 2017	Treasury Management Annual Report 2016-17.docx



Report of	Meeting	Date
Chief Finance Officer	Governance Committee	21 June 2017

CHARITY AND TRUST ACCOUNTS 2016/17

PURPOSE OF REPORT

- To present for approval the accounts for the year ended 31 March 2017 for charities and trusts for which the Council is the sole trustee.

RECOMMENDATION(S)

- That the accounts presented in Appendix A to E be approved.

EXECUTIVE SUMMARY OF REPORT

- The Council's Statement of Accounts 2016/17 does not include the previous Trust Funds disclosure. As an alternative, figures are presented in this report, which therefore provides an opportunity of providing more detail about each charity or trust.

Confidential report Please bold as appropriate	Yes	No

CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

- As part of the process of decluttering the Council's Statement of Accounts in 2015/16, the previous Trust Funds note was omitted. Figures relating to the trusts were not material, and inclusion of the note in the statement would not improve users' understanding of the Council's financial position. Excluding the note from the statement means that the external auditors have not been obliged to audit it.
- Having excluded the note from the Statement of Accounts, this report gives Governance Committee members the opportunity to review and approve the accounts for each of the charities or trusts, presented as Appendix A to E. A brief summary of the financial performance of each charity or trust is presented in the following paragraphs. There is no statutory requirement for the accounts to be audited. Figures are not rounded so that all transactions can be seen in full. The note to the accounts had figures rounded to the nearest thousand pounds, which means that low value transactions were not visible.

7. Three of the charities or trusts hold external investments. No sums have been disinvested and reinvested, but the market value of investments varies from year to year. Such changes in market value are reflected in the relevant accounts.

EDWARD MCKNIGHT MEMORIAL FUND

8. This fund was established many years ago to pay for educational lectures in memory of Edward McKnight, Chorley's first librarian, who died in 1911. It has a cash balance, held by Chorley Council, which receives interest at the average rate earned on the Council's investments. It has not incurred any expenditure for many years. Its accounts are presented as Appendix A. These show that cash held for the fund as at 31 March 2017 was £5,310.70.

WILLIAM COCKER CHARITY

9. The William Cocker Charity is not registered with the Charity Commission, and there is no need to do so because of its low turnover. It was established for the provision of recreation grounds in Chorley, and the interest earned on its external investment is paid to Chorley Council for that purpose. Appendix B presents the accounts for the charity.

PROCEEDS OF SALE OF FORMER FREE LIBRARY

10. This registered charity was established in 1992 using the proceeds of the sale of the Avondale Road Library, previously known as the Free Library. The objects of the charity are such charitable purposes for the general benefit of the inhabitants of Chorley.
11. No expenditure was incurred by the charity during 2016/17
12. The main source of income is interest on the charity's external investments, but Chorley Council also pays interest (at the average rate earned on its investments) on the cash balance it holds for the charity. The balance held by the Council was £17,928.73 as at 31 March 2017, and all figures are presented in the accounts in Appendix C.

W B PARK'S CHARITY

13. It is understood that W B Park's Charity was established for the extension of the Infectious Diseases Hospital, Withnell. The Council holds a cash balance of £1,704.89 for the charity, which does not have interest added because of the difficulty of applying the charity's resources to an appropriate purpose. It is not a registered charity, and its accounts are presented as Appendix D.

H T PARKE'S BATHS FUND

14. The H T Parke's Baths Fund was established for the maintenance of Brinscall Baths. The interest earned on its external investment is paid to Chorley Council for that purpose. The fund is not registered as a charity. Appendix E presents its accounts for 2016/17.

IMPLICATIONS OF REPORT

15. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

16. This report has replaced the disclosure note previously presented in the Council’s annual Statement of Accounts, and it gives members the opportunity to review and query performance of each charity or trust before approving their accounts.

COMMENTS OF THE MONITORING OFFICER

17. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE & STATUTORY FINANCE OFFICER

Background Papers			
Document	Date	File	Place of Inspection
Gov.uk – Prepare a charity’s annual accounts	March 2016	Electronic document	Town Hall

Report Author	Ext	Date	Doc ID
Martin Fisher	5354	12 June 2017	Charity and Trust Accounts 2016-17.docx

Edward McKnight Memorial Fund

Receipts & payments account for the year ended 31 March 2017		
2015/16		2016/17
£		£
	Receipts	
23.20	Interest on cash held by Chorley Council	15.36
23.20	Total receipts	15.36
	Payments	
	No expenditure in year	
0.00	Total payments	0.00
23.20	Net receipts/(payments)	15.36
5,272.14	Bank and cash at the start of the period	5,295.34
5,295.34	Bank and cash at the end of the period	5,310.70

Statement of assets and liabilities at 31 March 2017		
31		31
March		March
2016		2016
£		£
	Cash assets	
5,295.34	Cash held by Chorley Council	5,310.70
5,295.34	Total cash assets	5,310.70
5,295.34	Total assets	5,310.70

William Cocker Charity

Receipts & payments account for the year ended 31 March 2017		
2015/16		2016/17
£		£
	Receipts	
102.73	Interest on investments	83.49
102.73	Total receipts	102.73
	Payments	
(102.73)	Provision of recreation grounds in Chorley (paid to Chorley Council)	(83.49)
(102.73)	Total payments	(83.49)
0.00	Net receipts/(payments)	0.00
0.00	Bank and cash at the start of the period	0.00
0.00	Bank and cash at the end of the period	0.00

Statement of assets and liabilities at 31 March 2017		
31 March 2016		31 March 2017
£		£
	Other assets	
3,121.49	External investments	3,596.42
3,121.49	Total other assets	3,596.42
3,121.49	Total assets	3,596.42

**Proceeds of Sale of Former Free Library
(registered charity 1010457)**

Receipts & payments account for the year ended 31 March 2017		
2015/16		2016/17
£		£
	Receipts	
3,240.66	Interest on investments	3,055.90
57.50	Interest on cash held by Chorley Council	46.95
3,298.16	Total receipts	3,102.85
	Payments	
	No expenditure in year	
0.00	Total payments	0.00
3,298.16	Net receipts/(payments)	3,102.85
11,527.72	Bank and cash at the start of the period	14,825.88
14,825.88	Bank and cash at the end of the period	17,928.73

Statement of assets and liabilities at 31 March 2017		
31 March		31 March
2016		2017
£		£
	Cash assets	
14,825.88	Cash held by Chorley Council	17,928.73
14,825.88	Total cash assets	17,928.73
	Other assets	
94,568.55	External investments	109,988.51
94,568.55	Total other assets	109,988.51
109,394.43	Total assets	127,917.24

W B Park's Charity

Receipts & payments account for the year ended 31 March 2017		
2015/16		2016/17
£		£
	Receipts	
	No income in year	
0.00	Total receipts	0.00
	Payments	
	No expenditure in year	
0.00	Total payments	0.00
0.00	Net receipts/(payments)	0.00
1,704.89	Bank and cash at the start of the period	1,704.89
1,704.89	Bank and cash at the end of the period	1,704.89

Statement of assets and liabilities at 31 March 2017		
31		31
March		March
2016		2017
£		£
	Cash assets	
1,704.89	Cash held by Chorley Council	1,704.89
1,704.89	Total cash assets	1,704.89
1,704.89	Total assets	1,704.89

Appendix E

H T Parke's Baths Fund		
Receipts & payments account for the year ended 31 March 2017		
2015/16		2016/17
£		£
	Receipts	
101.84	Interest on investments	101.84
101.84	Total receipts	101.84
	Payments	
(101.84)	Maintenance of Brinscall Baths (paid to Chorley Council)	(101.84)
(101.84)	Total payments	(101.84)
0.00	Net receipts/(payments)	0.00
0.00	Bank and cash at the start of the period	0.00
0.00	Bank and cash at the end of the period	0.00

Statement of assets and liabilities at 31 March 2017		
31 March 2016		31 March 2017
£		£
	Other assets	
2,476.13	External investments	2,530.87
2,476.13	Total other assets	2,530.87
2,476.13	Total assets	2,530.87



Report of	Meeting	Date
Director of Policy and Governance	Governance Committee	21 June 2017

ANNUAL GOVERNANCE STATEMENT

PURPOSE OF REPORT

1. To present the draft Annual Governance Statement (AGS) to the Governance Committee for review and approval.

RECOMMENDATION(S)

2. That the draft Annual Governance Statement appended to this report be approved and referred to the Executive Leader of the Council and the Chief Executive for signature.

EXECUTIVE SUMMARY OF REPORT

3. Pursuant to the Local Government Act 1999, the Authority are required to continuously review our system of Governance. As part of this review we publish an Annual Governance Statement (AGS) alongside the annual financial statements.
4. CIPFA and SOLACE issue guidance on the form of the AGS and the self-assessment process that authorities must undertake to compile it.
5. This draft AGS is presented to Members of this Committee to review and approve. It has been properly drafted in accordance with the guidance issued. The assessments which have informed the preparation of the AGS demonstrate that the Council have strong governance arrangements.
6. When approved the AGS will be formerly signed off by the Leader of the Council and the Chief Executive. It will then be submitted for external audit alongside the 2016/17 financial statements.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

BACKGROUND

8. Under the Accounts and Audit Regulations 2015 every Council is required to conduct an annual review of the effectiveness of its system of governance and publish an AGS each year alongside its financial statements.
9. CIPFA and SOLACE have issued a Framework and supporting guidance entitled "Delivering Good Governance in Local Government", under which councils are required to:
 - develop and maintain an up-to-date local code of governance consistent with certain "core principles" set out in the Framework;
 - review their existing governance arrangements against the Framework;
 - prepare a governance statement in order to report publicly on the extent to which the Council complies with its own code on an annual basis including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
10. The CIPFA SOLACE Framework defines proper practice for the form and content of the AGS. The Framework requires the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) to sign the AGS. They must be satisfied that the document is supported by reliable evidence and accurately reflects the Council's system of governance.
11. The AGS is a corporate document and should involve (in addition to the most senior officer and the most senior member as signatories) a variety of people charged with delivering governance, including:
 - the monitoring officer in meeting his/her statutory responsibilities;
 - the responsible financial officer who is responsible for the accounting control systems and the preparation of the statement of accounts;
 - directors assigned with the ownership of risks and the delivery of services;
 - members (e.g. through audit or scrutiny committees); and
 - others responsible for providing assurance (e.g. Internal & External Audit).
12. The AGS is owned by all senior officers and members of the authority. A shared approach should be taken to compiling the AGS because any delegation to a single individual or section will dilute its significance and encourage other people to distance themselves from their proper responsibilities.
13. The guidance also states the need for a review body in the process such as the Governance Committee, which should be charged with critically reviewing the AGS and its supporting documentation. It is vital that this review body remains independent from the AGS compilation and is given real powers to make recommendations and ultimately changes to the process as it sees fit.

FORM OF THE ANNUAL GOVERNANCE STATEMENT

14. The format of the AGS is substantially the same as previous years however it will be noted that in line with the updated CIPFA guidance, the new core principles adopted in the Council's Code for Corporate Governance are now used to provide the measure against which the Council assesses itself.
15. In addition the new guidance stresses the readability of the AGS, recognising that this is a document that all people should be able to read and easily understand. The AGS has therefore become shorter in length and less technical in language where possible.
16. In response to feed back in previous years the AGS also now includes an update section on how improvements to previously identified governance issues have been progressed.

CORPORATE SELF-ASSESSMENT

- 17. A corporate group consisting of the following officers contributed to the self-assessment and draft AGS
 - Chief Executive (S151 Officer)
 - Director of Governance and Policy
 - Head of Legal Democratic and HR Services(Monitoring Officer)
 - Head of Shared Assurance Services
 - Principal Auditor

- 18. Section 5 of the Appendix discloses what the management group consider to be main opportunities to enhance the Council’s governance arrangements taking account of organisational changes and the corrective action implemented following last year's self-assessment. This view has been derived from the group’s cumulative knowledge of the Council's system of governance and the views of independent assurance sources such as External Audit.

- 19. The role of the Chief Finance Officer and the role of the Head of Internal Audit has been assessed, to ensure that the roles are undertaken to professional standards and that the Council ensures that appropriate support arrangements are provided to enable them to fulfil their duties.

SERVICE ASSURANCE STATEMENTS

- 20. In addition to the corporate self-assessment, assurance has also been obtained from Directorates, as it is they who are responsible for implementing the respective governance systems and procedures within their service areas. Service Assurance Statements have been compiled which require Directors in consultation with Heads of Service and Managers to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any non-compliance issues.

- 21. Whilst the Service Assurance Statements will provide an assessment of individual service compliance, the completed Service Assurance Statements are primarily used to ascertain whether there are any common areas of concern across the organisation. If so, do these constitute significant governance issues. Again, any non-compliance issues emerging from the Service Assurance Statements have also been included in Section 5 of the AGS at the Appendix.

RESULTS OF ASSESSMENTS

- 22. The Council were found to have strong governance arrangements with few identified areas for improvement. The Committee are asked to consider section 3 of the AGS which details at a high level how the Council discharge their obligations.

- 23. Section 5 of the AGS identifies proposed areas for improvement. These are issues that have been highlighted as needing improvement, the issues are not in themselves significant. They are areas which suggest partial compliance with requirements or where there is insufficient evidence to demonstrate full compliance. There are no areas of significant none compliance by the Council.

IMPLICATIONS OF REPORT

- 24. This report has implications in the following areas and the relevant Directors’ comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	

Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

25. None.

COMMENTS OF THE MONITORING OFFICER

26. None.

CHRIS SINNOTT
 DIRECTOR OF POLICY AND GOVERNANCE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Chris Moister	5160	13 June 2017	

CHORLEY COUNCIL**ANNUAL GOVERNANCE STATEMENT****1. Scope of responsibility**

The residents of the Borough of Chorley expect the Council to conduct our business in a lawful and transparent way. In particular the Council have a duty to safeguard public money and account for it in an economic, efficient and effective way.

We have a continuing duty to review and improve how we discharge our functions focussing on the priorities of economy, efficiency and effectiveness.

To do this, the Council have put in place arrangements for the governance of its affairs. These arrangements assess the effectiveness of the exercise of its functions, and consider how well we manage risk.

We have approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website. This statement explains how the Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which control and direct the Council. It provides how we account to, engage with and lead the community. It enables us to monitor the achievement of our strategic objectives and to consider whether our objectives have led to the delivery of appropriate, cost effective services for that community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. This enables us to manage risk efficiently, effectively and economically.

The governance framework has been in place at Chorley Council for the year ended 31 March 2017 and up to the date of approval of the annual report and statement of accounts.

3. The governance framework

The following paragraphs describe the key elements of the systems and processes that comprise the authority's governance arrangements. These are founded on the Core Principles and sub-principles taken from our Code of Corporate Governance.

Core Principle 1 – Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law**Behaving with integrity**

The Council have established both for Councillors and Staff Codes of Conduct and training is provided on both. Standards of behaviour are also assessed during employees one-to-one meetings and appraisals.

It is essential that not only decisions are taken with integrity but are seen to be so. The Council have established transparent decision making processes through the Contract Procedure Rules,

an online declaration of interests process and the use of standing orders. The public can therefore review and take comfort in the integrity of the decision makers.

The Council do however have processes and policies in place to provide avenues to challenge decision making through whistleblowing, complaints and the call in procedure.

Demonstrating strong commitment to ethical values

The Council have adopted in our Contract Procedure Rules the requirement for partners and contractors to adopt our, or have equivalent ethical standards of behaviour.

Respecting the Rule of Law

The Council's Constitution, policies and standing orders are all drafted in accordance with legislation. Application of these processes is tested through local assurance testing.

The Council is fully aware that they must pay attention to the advice of the Council's Monitoring Officer and have good reasons, which must be documented should they depart from it. In the event the Council acts unlawfully, the Monitoring Officer must report this to Full Council. The Monitoring Officer has never had cause to take this step.

Core Principle 2 – Ensuring Openness and Comprehensive Stakeholder Engagement

Openness

The Council have a robust approach to freedom of information and aim as part of our Digital Strategy to make as much information held by the Council accessible through our website as possible.

All key decisions must be taken in writing and are published in accordance with the legislation. As part of the process both the Senior Financial Officer and Monitoring Officer must be consulted and provide comments. Where appropriate, comments are also included in relation to equality and HR.

Engaging Comprehensively with institutional stakeholders

The Council have a robust Communications Strategy which forms the basis for our relationships with our stakeholders. We ensure that we keep accurate records of stakeholder contacts to ensure they are engaged with properly and for the correct purposes.

Engaging Stakeholders Effectively including individual citizens and service users

We use our Communications and Community Engagement Strategy to ensure that residents are properly consulted on matters which affect or interest them. This consultation contributes to the achievement of the Council's intended outcomes. Increasingly we are using web based and social media to engage with our residents but recognise that in order to consult properly we must use a mix of methods.

Core Principle 3 – Defining Outcomes in terms of Sustainable Economic Social and Environmental Benefits

Defining Outcomes

The Council have a clearly defined vision which forms the premise of our Corporate Strategy. The Strategy itself is developed in consultation with residents and stakeholders and its implementation is through the delivery of corporate projects and service level plans. All corporate projects have an initial document which defines the outcomes and projects are monitored through the MyProjects system.

Sustainable Economic Social and Environmental Benefits

The Council have refreshed the Medium Term Financial Strategy to ensure that Capital investment is structured to maximise its life span whilst being adaptable for future use. Specific consideration is made of social and economic wellbeing of residents as evidenced by projects that provide affordable supported accommodation, employment opportunities and social benefits.

Core Principle 4 – Determining the Interventions Necessary to Optimise the Achievement of Intended Outcomes

Determining Interventions

We have a robust approach to setting interventions. Members and Officers work closely together and consult on the preparation of the Corporate Strategy which sets the framework for council delivery. The benefits of interventions are considered not only based on cost but also upon need and impact in order to ensure best value is met.

Feedback from residents in this process is very important to ensure what we deliver is both needed and wanted.

Planning Interventions

The Council have a strong framework for planning the implementation of our interventions. We publish a calendar of meetings, and the Key Decision forward plan to confirm dates for decisions to be taken but in addition ensure all report writers are aware of publication of agenda dates to press for reports to be prepared in good time. We have a clear Communications Strategy to ensure proper consultation and a Risk Register.

We are promoting the use of the Project Management Toolkit which ensures that there is a clear scope, timetable and outcomes for each project and Key Performance Indicators are set to monitor each service.

Each project or intervention has a budget and there are regular meetings between management accountancy both with project managers and service heads for monitoring purposes.

Optimising Achievement of Intended Outcomes

The Medium Term Financial Strategy is refreshed regularly to ensure it stays current and reflects any changes in council priorities. This ensures proper budgetary planning.

Core Principle 5 – Developing the Entity's Capacity, including the Capability of it's Leadership and the Individuals within it

Developing the Entities Capacity

We have a Transformation Strategy which the Council uses to plan for future changes to the organisation, planning for future capacity needs. Such transformation is achieved through rough cut costing, benchmarking and use of the Council's Corporate Strategy.

Developing the Capability of the Entity's Leadership and other Individuals

Roles are clearly defined within the Council through the use of job descriptions and structure charts. The Constitution details the responsibilities of officers and councillors and the identity of the statutory officers.

Relationships are managed through regular and frequent member briefings.

The Council have updated the Organisational Development Plan ensuring that all staff have the opportunity to benefit from personal and professional development, and this is monitored through one to ones and the annual appraisal process.

Officers and Councillors alike are held to account through the Residents Panel, Neighbourhood Meetings with residents, Stakeholder Forums and the Strategic Partnership Forum; as well as through Overview and Scrutiny Committee.

Core Principle 6 – Managing Risks and Performance through Robust Internal Control and Strong Public Financial Management

Managing Risk

There is an established Risk Management Protocol and Risk Management Strategy which ensures that risk is considered in all aspects of decision making. This includes the identification of risks but also ensuring responsibility for them is allocated correctly.

Managing Performance

This is part of the Council's approach to business transformation. Service delivery is monitored through service meetings, performance indicators, benchmarking and budget monitoring. The Executive Members have regular service briefings in relation to their portfolios. Overview and Scrutiny Committee are engaged and Task Groups have responsibility for considering and suggesting improvements in relation to service delivery.

Robust Internal Control

The Council require all directorates to complete assurance statements which identify compliance issues which may exist across the Council.

The Annual Governance Statement reflects on the adequacy and effectiveness of the Council's Governance Framework. This is then independently considered by external audit.

The Governance Committee complies with best practice and tests the Council's controls through the receipt of reports for consideration.

Managing Data

The Council have clearly defined policies and procedures for managing and storing data. Additional work is required however to embed these and update the Council's IT systems.

Strong Public Financial Management

All decisions of the Council require a comment from the SFO, which will address budgeting issues and compliance with Best Value and the Council's contract procedure rules. There are regular meetings between budget holders / project managers and Finance to monitor budgets and any changes can be identified early.

Core Principle 7 – Implementing Good Practices in Transparency Reporting and Audit to Deliver Effective Accountability

Implementing Good Practice in Transparency

We feel it very important for the discharge of our obligations that as much information as possible is made available to the public. This is done through publication on the Council's website.

Implementing Good Practices in Reporting

The Council comply with good practice in relation to value for money reporting and the annual Statement of Accounts considers how public finances have been stewarded.

It is the practice of the Authority to ensure that all key decisions are made by councillors in accordance with our approval processes. Compliance with these processes are considered within this Annual Governance Statement. In all instances formats follow best practice.

Assurance and Effective Accountability

We view improvement as a continuing process. Recommendations from Audit are reported to Governance Committee with confirmation as to how they can be implemented and the expected benefits.

Overview and Scrutiny Task Groups report proposed improvements to Executive Cabinet who decide whether to accept the recommendations or not. Where accepted Cabinet will later report as to the progress of the implementation of improvements.

Residents have the right to ask questions at Council meetings in relation to matters on the meeting agenda which ensure immediate accountability to residents.

4. Review of effectiveness

Chorley Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The following paragraphs describe the processes that have been applied in maintaining and reviewing the effectiveness of the Council's governance framework:

Corporate Level Review

- A management group consisting of the following officers has been established to oversee the compilation of the Annual Governance Statement:
 - Chief Executive (S151 Officer)
 - Head of Governance and Property (Monitoring Officer)
 - Head of Policy & Communications
 - Head of Shared Assurance Services
- The group has conducted a detailed corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE.

Service Level Review

- The Council has also introduced Service Assurance Statements requiring Heads of Service to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement.

Monitoring Officer

- As the Council's Monitoring Officer, the Head of Governance has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Monitoring Officer will report and recommend to Council any proposed amendment to the Constitution, which falls outside the Monitoring Officers delegated powers, for adoption.

Scrutiny Committee

- The Council has an Overview and Scrutiny Committee which can challenge a decision which has been made by the Executive Cabinet or a statutory committee but not yet implemented, to enable them to consider whether the decision is appropriate.

Governance Committee

- The Council has appointed a Governance Committee whose terms of reference comply with the CIPFA guidelines. These extend to monitoring the Council's governance, risk management and internal control framework and include reviewing the adequacy of the governance framework.

Standards Sub-Committee

- The Council has appointed a Standards Sub-Committee of the Governance Committee whose terms of reference comply with the prevailing national guidance on standards and codes of conduct for members.

Internal Audit

- Internal Audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Service. The report includes recommendations for improvements that are included within a Management Action Plan and require agreement or rejection by service managers. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon.
- The Annual Report in itself is a tool not just for reporting on internal control but improving them.
- The Internal Audit Annual Report contains the opinion of the Head of Shared Assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. Whilst the Council's governance and control environment continues to be effective, the introduction of the Governance, Risk and Control Self-Assessment (GRACE) software will strengthen the current risk management arrangements.
- The Internal Audit Team is subject to on-going inspection by the Council's external auditors, who place reliance on the work carried out by them.

External Audit

- The Council receive regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Authority, the executive, Governance Committee, Overview and Scrutiny Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Identified Governance Issues

In the previous year the following themes were identified as requiring action and improvement:

Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Staff/Member Development	1.1 To develop the current level / programme of financial training packages for Budget Holders (& Members) to include use of systems, process improvement and financial management techniques.	<ul style="list-style-type: none"> - Identify priority issues for customers and Shared Services - Consult customers - Produce packages - Deliver training - Develop self-service continual training via intranets 	<p>COMPLETED</p> <p>Extensive user training and compliance education has been provided in 2016/17 Budget holders are provided with 1-2-1 sessions with service accountants. Additional support and training will be on-going to incorporate system and process improvements.</p>
2. Information Management	2.1 To ensure that there are clear document retention guidelines which are complied with by Services.	<ul style="list-style-type: none"> - Develop program of work to replace SharePoint corporately - Utilise document management system within the new application. 	<p>TO BE CONTINUED</p> <p>Although system solution has not yet been identified, document retention has been incorporated into the new Customer and Digital Strategy which is to be presented to Executive Cabinet in June 2017.</p>
	2.2 To ensure that the Council is fully compliant with the Data Protection Act and Freedom of Information requirements.	<ul style="list-style-type: none"> - DPA/FOI policies to be included within programme of briefings in core brief messages (see 6.1) 	<p>TO BE CONTINUED</p> <p>Although this has been included within the programme of briefings in core brief, further work is to be undertaken to ensure compliance with new requirements in legislation.</p>
3. Risk Management	3.1 To embed the Risk Management Framework at service level	<ul style="list-style-type: none"> - Oversee revision of service risk registers following the management restructure. 	<p>COMPLETED</p> <p>Acquired new software (GRACE) to enable risk and control self-assessment by services. Training has been delivered to Key Officers. Corporate risk register and Service risk registers uploaded onto GRACE and risks and controls</p>

			allocated to specific owners.
	3.2 Revise and re-issue Business Continuity Plans	<ul style="list-style-type: none"> - Review & update documentation - Arrange awareness training 	COMPLETED Acquired new software (CONNIE) to enable BCP self-serve by services from 2017/18.
	3.3 Review and update all Health & Safety risk assessments	<ul style="list-style-type: none"> - Review & update documentation - Arrange awareness training 	TO BE CONTINUED SMT have agreed 'way forward' regarding the development of risk assessments. A risk assessment process and templates have been progressed and the new approach is currently being piloted.
4. Performance Management	4.1 To ensure compliance with the Data Quality Policy	<ul style="list-style-type: none"> - Review of roles and responsibilities for performance management - Individual briefing for collection and responsible officers - Identify training needs and undertake training 	COMPLETED New Performance Indicators have been agreed and Data Quality Policy applied.
5. Value for Money / Transparency	5.1 To ensure that services can demonstrate VFM & compliance with the revised Transparency Code	<ul style="list-style-type: none"> - Review VFM requirements and current arrangements for demonstrating 	COMPLETED Majority of areas have been reviewed with regard to VFM. VFM linked to the delivery of the Transformation Strategy. Compliance with the Transparency Code is on-going.
6. Corporate Policies	6.1 To ensure that all employees are aware of the requirements of corporate policies.	<ul style="list-style-type: none"> - Programme of briefings included in core brief messages 	TO BE CONTINUED This is an on-going area and is to be incorporated into the more structured approach to OD and e-learning training.
7 Fraud & Corruption	7.1 To ensure compliance with the requirements contained within the Fighting Fraud & Corruption Locally – The local government counter fraud and corruption strategy and companion.	<ul style="list-style-type: none"> - To review the current arrangements against the FFCL checklist. - Implement findings arising from review. 	COMPLETED A review against the FFCL checklist has been undertaken and the results presented to Governance Committee in March 2017. 4 areas identified for strengthening which have been incorporated into the Shared Services BIP.

The Council will take the following steps in the forthcoming financial year to build and strengthen our corporate governance arrangements:

Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Information Management	1.1 To ensure that there are clear document retention guidelines which are complied with by Services.	<ul style="list-style-type: none"> - Develop program of work to replace SharePoint corporately - Utilise document management system within the new application. 	CONTINUED FROM 2016/17 System solution has not yet been identified, document retention has been incorporated into the new Customer and Digital Strategy which is to be presented to Executive Cabinet in June 2017.
	1.2 To ensure that the Council is fully compliant with the Data Protection Act and Freedom of Information requirements.	<ul style="list-style-type: none"> - GDPR new requirements in legislation are to be in place by May 2018. Action Plan to be implemented to ensure compliance within the timescales - More effective use of the information champions. 	CONTINUED FROM 2016/17
2. Risk Management	2.1 Review and update all Health & Safety risk assessments	<ul style="list-style-type: none"> - Review & update documentation - Arrange awareness training 	CONTINUED FROM 2016/17
3. Corporate Policies	3.1 To ensure that all employees are aware of the requirements of corporate policies.	<ul style="list-style-type: none"> - Rolling programme of briefings on corporate policies are to be included in core brief messages 	CONTINUED FROM 2016/17
4. Equality & Diversity	4.1 To further embed equality and diversity throughout the Council	<ul style="list-style-type: none"> - Raise awareness of need to complete EIA for any new policies - To refresh approach by ensuring that Equality comments are incorporated into all appropriate reports 	NEW FOR 2017/18

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Cllr. A. Bradley
Leader of the Council

G Hall
Chief Executive
& Section 151 Officer

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Report of	Meeting	Date
Director Policy and Governance	Governance Committee	21 June 2017

STRATEGIC RISK UPDATE REPORT

PURPOSE OF REPORT

1. The Strategic Risk Register (SRR) is the vehicle by which the Council aims to identify and address any potential risks to the organisation and the delivery of its functions which therefore need to be managed strategically.
2. This report provides members with an updated SRR which includes 15 strategic risks to the Council, including actions in progress as well as new actions planned to further mitigate identified risks.

RECOMMENDATION(S)

3. That members note the strategic risks, actions in progress and actions planned to further mitigate the strategic risks as set out in Appendix 1.

EXECUTIVE SUMMARY OF REPORT

4. The Council operates in a continually changing political, economic and financial environment. The SRR is therefore a live document and needs to be updated to reflect any new or emerging strategic risks facing the Council.
5. This report contains the latest revision to the SRR for members’ information and comment.
6. The risk register is continually reviewed and currently, the majority of risk categories remain stable with six of these identified as ‘high risk’, six ‘medium risk’ and three ‘low risk’. Four risk levels have been increased this year. Two risk levels have been increased to reflect the large levels of investment and change being undertaken in the borough over the coming year and potential resident views regarding this. One risk level has been increased to reflect higher risks with regards to implementing new ways of working and alternative business models for the council and one has been rated more highly due to recent changes to UK threat levels and heightened risk of cyber-attacks.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

- 8. Risk management is a cornerstone of good corporate governance and the Council has established a system of risk management which involves the creation of risk registers at a strategic level, service level and individual project levels.
- 9. Compiling the Strategic Risk Register requires a collective effort involving chief officers and senior members to identify the key strategic risk issues facing the Council. Senior Management Team (SMT) are responsible for identifying, monitoring and mitigating service list level risk and once key projects have been identified the responsibility for managing these and compiling project risk registers and storing them within the Council’s risk management system (GRACE) lies with individual services. The process is described in more detail in the Council’s Risk Management Framework.

HOW THE RISKS ARE SCORED

- 10. The introduction of the GRACE system now means that all organisational risk registers are centrally stored. The introduction of the system has also seen an updated risk matrix which scores risk on a 4x4 matrix rather than the 3x3 matrix as was previously used. This matrix is considered a more comprehensive tool on which to record and evaluate risk. The 4x4 matrix can be seen below:

Major	4	4 Low	8 Medium	12 High	16 High
Serious	3	3 Low	6 Medium	9 Medium	12 High
Minor	2	2 Low	4 Low	6 Medium	8 Medium
Insignificant	1	1 Low	2 Low	3 Low	4 Low
		1	2	3	4

<p>Rarely – there is a slight possibility that the event will occur</p>	<p>Unlikely- there is a possibility that the event will occur or there is a history of occasional occurrence within the authority</p>	<p>Likely – There is a strong possibility that the event will occur or there is history or regular occurrence within the Authority</p>	<p>Highly likely - there is little doubt that the event will occur</p>
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- 11. All of the risks have been re-assessed and re-scored on the 4x4 matrix based on the likelihood of the risk occurring against the impact for the organisation if it did occur. The resulting score out of 16 is used to aid in prioritising the risk and mitigating actions. If the risks have been considered to be at the same level as last year (when scored based on the 3x3), the score shown will be at the equivalent level on the 4x4 matrix, although it may appear as a higher number. The register also indicates where there has been a change in the consideration of the risk level since the register was last reviewed in 2016.

SUMMARY OF THE RISKS

12. A summary of the updated risks for 2017 can be found below:

Risk No.	Description of Risk	Matrix Score	Change in risk level from June 2016
R1	Failure to realise the value of large budget investments and achieve return on investments	16 (High)	↑
R2	Failure to achieve desired outcomes through partnership working and deterioration in relationships	16 (High)	→
R3	Budget cuts in key public and third sector partners having a negative impact on local level service delivery	16 (High)	→
R4	Failure to optimise opportunities for new ways of working and alternative business models including options for income generation	16 (High)	↑
R5	Lack of resources to deliver the Council's priorities due to public sector funding cuts (financial & staff capacity)	12 (High)	→
R6	Failure to react to changing service demand	12 (High)	→
R7	Reduction in satisfaction with the Council	9 (Medium)	↑
R8	Failure to sustain our performance in light of budget cut	9 (Medium)	→
R9	External legislative and policy change affecting service delivery, particularly future changes as a result of Welfare Reform	8 (Medium)	→
R10	Failure to fully realise the benefits of new technology and related impact on driving organisational change.	8 (Medium)	→
R11	Reduction in staff satisfaction and morale with the Council including increase in sickness absence	6 (Medium)	→
R12	Incidents affecting service delivery/business continuity or even widespread damage, injury or risk to the public including cyber-attack.	6 (Medium)	↑
R13	Damage to the council's reputation and potential reduction in resident satisfaction in relation to high profile planning applications, consultations and decisions.	4 (Low)	→
R14	Failure to build and maintain strong relationships of trust and confidence between officers and each party to promote good and open relationships between political parties	4 (Low)	→
R15	Failure of Shared Service arrangements	4 (Low)	→

13. Further details about each of these risks and their mitigating controls can be found within the register in Appendix one.
14. No new risks have been added to the register. The risk scores for four risks have been changed as highlighted in the table above. All changes to these risks have seen the risk score increase rather than decrease, demonstrating a higher level of risk in these areas for the Council this year.
15. The highest scoring risks, R1-5, continue to focus on delivering Council priorities and maintaining local services in the light of budget cuts. The Future Governance Models report and Transformation Strategy 2016 set out how the Council would meet challenges in future years through the development of new business models. Enabling actions have now been completed and the Transformation Strategy will be refreshed to set out a framework to achieve the financial savings that need to be made towards a sustainable operational and financial position, informing the corporate planning process.
16. The risk score for R1 'failure to realise the value of large budget investments and achieve return on these investments' has increased considerably since 2016 and is now considered to be the highest rated risk for the Council. This risk is now scored at 16 and categorised as 'high', compared to a risk level of 'medium' in 2016. The reason for this increase includes the Council's investment into large scale commercial developments, particularly in the town centre, and the need to see a return on this long term investment to assist the Council in achieving a sustainable financial position in future years.
17. Risk R2, which was the highest scoring risk in 2016, refers to budget cuts in key public and third sector partners having a negative impact on local level service delivery. Despite strong controls and mitigating actions the financial pressures on service delivery partners have meant that anticipated cuts have now started to take effect, most recently in the changes to local bus services by the County Council and challenges in local health services. The Council has stepped in to mitigate the impact of these changes for our local residents where possible, although we are aware that financial pressures at both a national and county wide level still exist meaning that further budget cuts may be imminent; therefore the risk score is maintained.
18. Risk R4, 'Failure to optimise opportunities for new ways of working and alternative business models including options for income generation' has been rated at a higher level this year than last. Good progress has been made towards enabling new business models however to achieve the scale of change required, new models will now need to be embedded as part of service delivery. The need for these measures to be implemented successfully to realise the intended outcomes, and the consequences of not doing so, has increased the score for this risk to the highest level of 16.
19. This years' update sees an increase of the score for risk R7, 'Reduction in satisfaction with the Council'. This risk has been considered higher due to the high level of change and activity taking place across the borough and the potential reduction in customer satisfaction as a result. There are however, a number of measures in place to mitigate this risk including comprehensive communications plans regarding the town centre developments, ensuring residents are frequently informed of any changes across the town centre. A resident satisfaction survey is also due to be undertaken this year and will provide comprehensive insight into local residents levels of satisfaction. Customer satisfaction continues to be measured and monitored by Senior Management Team (SMT) frequently through the corporate health dashboard.
20. Risk R12 has been given a slightly higher rating this year to reflect recent cyber-attacks on the NHS and current UK threat levels with a medium rating due to local, regional and national controls in place. This risk level will be closely monitored and security plans remain in place, proportionate to the level of threat which is set at a national level.

- 21. All other low level risks remain the same which reflects the uncertain nature of the current operating environment, with new actions and monitoring dates to ensure continued mitigation of risk.
- 22. In addition to the refresh of the Transformation Strategy, a number of additional controls remain in place including the Chorley Public Service Reform Partnership which looks to mitigate the negative impact of budget cuts by taking a system wide view to reducing demand with a focus on early intervention and prevention. The Council will also continue to respond proactively to consultations and take necessary action to maintain vital services for local residents.

IMPLICATIONS OF REPORT

- 23. This report has implications in the following areas and the relevant Directors' comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	N
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

17. There are no financial implications associated with the report.

COMMENTS OF THE MONITORING OFFICER

18. No comments

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Kate Cronin	5061	02/06/2017	SRRupdate 2017

Appendix 1

Risk No.	Description of Risk	Risk Category	Risk Owner	Controls in Place	Matrix Score	Actions Planned	Action Owner	Target Action Date	Comments
R1	Failure to realise the value of large budget investments and achieve return on investment	Financial (Internal)	SMT	<p>Budget setting process</p> <p>Regular budget monitoring</p> <p>Project and programme management</p> <p>SMT Programme Board</p> <p>Representation in the Corporate Strategy</p>	16	Ongoing monitoring of investment projects through quarterly monitoring and Corporate Strategy Programme Board.	ML	June 2018	Risk level remains high to reflect the significant level of investment in key developments, particularly in the town centre, and the need to achieve a return to support the MTFS.
R2	Failure to achieve desired outcomes through partnership working and deterioration in relationships	Reputation (Internal)	SMT	<p>Joint Integrated Community Wellbeing Service monitoring and Executive</p> <p>Chorley Public Service Reform Partnership and role of the Executive in leveraging priorities</p> <p>Partnership working is a key management competency</p> <p>Working relationships with key partners, both officer and elected member.</p> <p>Continued delivery of actions within the Transformation Strategy</p>	16	<p>Members and officers to work to manage relationships and ensure effective communication</p> <p>Phase 1 of ICW Service delivery – to embed governance and deliver year 1 objectives</p> <p>Evaluation of year 2 of the Public Service Reform Programme</p>	GH	Ongoing	<p>Partnership working remains critical to the organisations' transformation plans including;</p> <ul style="list-style-type: none"> - Public service reform - Shared services - Integrated Community Wellbeing Service <p>There remains a significant amount of uncertainty as a result of change in administration at county (e.g Combined Authority) and ongoing county council transformation.</p>

Risk No.	Description of Risk	Risk Category	Risk Owner	Controls in Place	Matrix Score	Actions Planned	Action Owner	Target Action Date	Comments
R3	Budget cuts in key public and third sector partners having a negative impact on local level service delivery	Strategic (External)	SMT	Existing relationships with key public sector partners. Chorley Public Service Reform Partnership Re-commissioning of third sector contracts to maintain local service delivery Intermediate solutions to county cuts and county council transformation budget Continued delivery of the Transformation Strategy	16	Officers and Members to lobby and influence key public sector partners through meetings, working groups and responding to consultations. Refresh of the Transformation Strategy to reflect council's updated position Cost effective, sustainable solutions to Intermediate measures to be identified in response to the county cuts (funding for libraries/ buses)	CS	Ongoing	This risk level was increased in 2016 and is to remain at the same level for 2017. This risk level remains high given outstanding budget deficits at a local, county and national level. Control measures have been successful in maintaining services and mitigating the impact of cuts for local residents but more sustainable solutions must now be identified.
R4	Failure to optimise opportunities for new ways of working and alternative business models including options for income generation	Operational (Internal) and Reputational	SMT	Key strategic partnerships framework Corporate strategy 2016 Chorley Public Service Reform Partnership Delivery of the 2016 Transformation Strategy Changes to waste collection	16	Refresh of the Transformation Strategy to embed new business models and explore options for income generation Implementation of ICT/Digital Strategy and WorkSmart principles across the organisation	CS	Ongoing	The risk score has increased this year to reflect the impact of not delivering against new business models and level of uncertainty in terms of partner/staff commitment as we progress new models and ways of working.

Risk No.	Description of Risk	Risk Category	Risk Owner	Controls in Place	Matrix Score	Actions Planned	Action Owner	Target Action Date	Comments
R5	Lack of resources to deliver the Council's priorities due to public sector funding cuts (financial & staff capacity)	Financial (Internal)	SMT	<p>Refreshed Corporate Strategy and service level business plans</p> <p>Refreshed Medium Term Financial Strategy</p> <p>Additional budget investment in priorities</p> <p>Continued organisational development through the Leading Edge and Flair programmes</p> <p>Delivery of the Transformation Strategy</p> <p>Changes to service provision (e.g waste collection) to generate additional income</p> <p>Increase in Council tax 2017/18</p>	12	<p>Focus on business growth and generating additional income to make the council financially self-sufficient</p> <p>Refresh and development of a clearer and more prescriptive Transformation Strategy</p>	CS	June 2018	<p>Further cuts to public sector funding anticipated.</p> <p>The Transformation Strategy is undergoing a refresh to provide clear direction and ensure all options are assessed to mitigate the impact.</p>
R6	Failure to react to changing service demand	Strategic (External)	SMT	<p>Use of system data and regular monitoring and reporting</p> <p>Volumetric data capture</p> <p>Self service capability via council website.</p> <p>ICT and Digital Strategies</p> <p>Transformation Strategy</p> <p>Delivery of the Single Front Office (SFO)</p>	12	<p>Refresh of the existing Transformation Strategy, ensuring that it reflects an awareness of changing customer needs and our plans to address this.</p> <p>Implementation of the Digital and Customer strategy.</p>	AK/ CS	December 2017	<p>Risk reflects need to manage customer demand and make services more sustainable by driving down cost to access. The consolidation of single front office functions and approval of the Digital and Customer Strategy by Executive Cabinet in June 2017 will help mitigate this risk.</p>

Risk No.	Description of Risk	Risk Category	Risk Owner	Controls in Place	Matrix Score	Actions Planned	Action Owner	Target Action Date	Comments
R7	Reduction in satisfaction with the Council	Reputation (Internal)	SMT	<p>Digital Strategy</p> <p>Regular monitoring through the performance dashboard and quarterly performance reports</p> <p>Customer Satisfaction Survey</p> <p>Communications plan for town centre projects</p>	9	<p>Additional investment in priority areas</p> <p>Tangible improvement projects in the Corporate Strategy</p> <p>Communications, campaigns and events.</p> <p>Residents satisfaction survey 2017</p> <p>Customer focus as key theme of Digital and Customer Strategy</p>	Performance and Partnerships / Communications and events	December 2017	<p>Outturn performance for dissatisfaction was positive - 18.3% for 2016/17 against a target of 20%.</p> <p>This risk has been rated higher for 2017 due to the high levels of change which will be seen across the town centre in 2017/18.</p>
R8	Failure to sustain our performance in light of budget cuts	Reputation (Internal)	CS	<p>Refreshed business planning procedure for 2017/18</p> <p>Regular performance monitoring and annual refresh of local indicators</p> <p>Corporate and key delivery PI's</p> <p>Leading Edge management competencies and Organisational development activity</p>	9	<p>Refresh Performance management framework</p> <p>Embed new technology to support internal monitoring</p> <p>Benchmarking exercises including LG Inform</p> <p>Transformation Strategy refresh</p>	Performance and Partnerships	Ongoing	<p>Performance in 2016/17 has been generally good, with the majority of indicators performing above target. Areas of underperformance are generally where more challenging targets have been set or significant external influences such as overall employment rate. Local action plans are in place for all indicators performing below target and outline actions that will be undertaken to improve performance in these areas.</p>

Risk No.	Description of Risk	Risk Category	Risk Owner	Controls in Place	Matrix Score	Actions Planned	Action Owner	Target Action Date	Comments
R9	External legislative and policy change affecting service delivery, particularly future changes as a result of Welfare Reform	Strategic (External)	SG	Chorley Welfare Reform Partnership Credit Union – now fully self-sustaining. Integrated Community Wellbeing Team	8	Risks outlined within relevant service business plans	AK / JC	March 2018	Upcoming elections could bring with it policy change, affecting our corporate priorities and service delivery. The Welfare Reform Partnership continues to work proactively to mitigate the impact of Welfare Reforms. However this risk remains high
R10	Failure to fully realise the benefits of new technology and related impact on driving organisational change.	Operational (Internal)	AK	Digital/ ICT Strategy Introduction to WorkSmart initiatives, with roll out seen in some teams Single Front Office	8	Extensive ICT network upgrade to improve technology and future proof organisation Continued roll out of WorkSmart across the organisation and continued staff engagement	AK	Ongoing	Risk remains at the same level for 2017 (medium) due to the risk of network disruption as the result of a significant ICT infrastructure upgrades planned for later this year and changes Worksmart will introduce to the organisation.
R11	Reduction in staff satisfaction and morale with the Council including increase in sickness absence	People (Internal)	CM	OD and health and wellbeing programmes Delivery of additional management training (Leading Edge and Flair) Healthcare cash back scheme Leading edge management competencies Internal communications plan Staff Matters	6	Staff survey 2017 Continued application of sickness absence policy Refresh of internal communications strategy	CM/ JM	December 2017	Another staff satisfaction survey (following the last held in 2015) is planned to be held in June 2017. The results of which will help to inform further controls against this risk. Staff sickness has continued to increase over the last year, with new performance measures implemented for 2017/17 following a benchmarking exercise against other local councils and national measures. Therefore this

Risk No.	Description of Risk	Risk Category	Risk Owner	Controls in Place	Matrix Score	Actions Planned	Action Owner	Target Action Date	Comments
									risk remains the same.
R12	Incidents affecting service delivery/business continuity or even widespread damage, injury or risk to the public including cyber-attack/information management breach.	Operational (External)	GH/AK	<p>Business Continuity Plan, including the application of the CONNIE system</p> <p>Emergency Plan</p> <p>Country wide flu pandemic plan.</p> <p>Multi agency flood plan</p> <p>Chorley COMAH Plan</p> <p>Staff awareness of ICT risks/threats and reporting of any issues</p> <p>National, regional and local security plans.</p> <p>Command and control structure in place</p>	6	<p>Business continuity plans refreshed and reviewed as they are entered into the CONNIE system</p> <p>Emergency arrangements continue to be in place</p> <p>Response to recent rise in UK threat level – security level to be reviewed at major events</p> <p>Chorley is a member of the PSN network</p>	GB	As required	<p>Risk level has increased slightly to reflect the recent events in the UK including NHS cyber attack. Risk retains a low score due to controls and plans in place.</p> <p>This risk will constantly be reviewed in light of any local or national changes.</p>
R13	Damage to the council's reputation and potential reduction in resident satisfaction in relation to high profile planning applications, consultations and decisions.	Reputation (Internal and External)	SMT	<p>Communication and engagement with local stakeholders and residents</p> <p>Governance procedure in place</p> <p>Planning Policies in place</p>	4	<p>Continued tailored communication and engagement for different issues.</p> <p>Monthly monitoring of resident satisfaction</p> <p>Residents satisfaction survey planned for 2017</p>	GH	June 2018	This risk level was reduced in 2016 and referred to specific cases including Market Walk and Extra Care. Large scale development applications continue to be received and therefore risk remains at the same level (low).

Risk No.	Description of Risk	Risk Category	Risk Owner	Controls in Place	Matrix Score	Actions Planned	Action Owner	Target Action Date	Comments
R14	Failure to build and maintain strong relationships of trust and confidence between officers and each party to promote good and open relationships between political parties	Strategic (Internal)	GH	Bi-weekly meeting with leader and regular meetings with the leader of the opposition. All party leaders meetings Attendance at political group meetings to address key issues.	4	Corporate strategy development and engagement with political parties	GH	As Required	Internal relationships are currently strong. Risk remains the same in light of general election and potential change in political priorities.
R15	Failure of existing Shared Service arrangements	Operational (Internal)	SMT	Strategic partnerships framework Effective governance arrangements	4	Continue with governance arrangements implemented Use any best practice/ lessons learned to inform future models for shared services	CS	Ongoing	Risk relates to existing shared services arrangements. Existing arrangements are embedded and continue to be successful. Risk level continues to stay the same due to potential impact of failure on organisation.

SMT – Senior Management Team

GH – Gary Hall (Chief Executive)

CS – Chris Sinnott (Director (Policy and Governance))

AK – Asim Khan (Director (Customer and Digital))

JC – Jamie Carson (Deputy Chief Executive/Director (Early Intervention and Support))

ML – Mark Lester (Director (Business, Development and Growth))

SG – Susan Guinness (Head of Shared Financial Services)

RH – Rebecca Huddleston (Head of Customer Transformation)

GB – Garry Barclay (Head of Shared Assurance Services)

CM – Chris Moister (Head of Legal, Democratic and HR Services)



Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	21st June 2017

COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

PURPOSE OF REPORT

1. The purpose of this report is to enable the Governance Committee, as “those charged with governance” and the Chief Executive on behalf of “management” to provide a range of assurances being sought by the external auditors – Grant Thornton as part of their audit of the Council’s 2016/17 accounts. The specific assurances being sought by Grant Thornton are set out in the two letters appended to this report.

RECOMMENDATION(S)

2. That, subject to consideration by the Committee, the Chairman of the Governance Committee and the Chief Executive be enabled to sign the assurance letters requested by Grant Thornton.

EXECUTIVE SUMMARY OF REPORT

3. Grant Thornton recently wrote to the Chief Executive (Appendix A) and the Chair of the Governance Committee (Appendix B) requesting information to assist with their audit of the Council’s 2016/17 financial statements. Given that the assurances requested were similar to the evidence being collated by Internal Audit to support the Annual Governance Statement (AGS) and in the interests of transparency, it was agreed with Grant Thornton that responses to their letters would be provided following consideration at this meeting.
4. Similar requests for assurance were made in respect of the 2015/16 financial statements and therefore the information provided in this year’s responses is in effect an update of the information which was supplied last year.
5. Having reviewed the specific information being sought, Internal Audit is satisfied that the Council’s arrangements are such that positive assurances can be given. Principally, this conclusion is arrived at through the:
 - comprehensive assurance and evidence gathered in compiling the AGS;
 - ongoing work of the Governance Committee and Internal Audit scrutinising and challenging the Council’s arrangements;
 - the work of the Chief Financial Officer and the financial arrangements and controls, including financial regulations, that have been adopted; and
 - the work of the Monitoring Officer and the Legal Team.
6. Further detailed information to support Internal Audit’s review and conclusions can be found in the tables at Appendices C and D.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

IMPLICATIONS OF REPORT

8. This report has implications in the following areas and the relevant Directors' comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area	X	Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

9. The analysis of actions in response to the standards indicate that the Council has in my view met its obligations and dealt with any reporting items as required.

COMMENTS OF THE MONITORING OFFICER

10. The responses outlined in the relies to External Audit's questions and requests for information accurately reflect the Council's policies and procedures and are a correct statement of the Council's approach to Governance.

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

Background Papers			
Document	Date	File	Place of Inspection
International Auditing Standards Annual Governance Statement Service Assurance Statements Evidence collated by Internal Audit to support responses.	June 2017	Shared Assurance Services	Civic Centre South Ribble BC
Report Author	Ext	Date	Doc ID
Dawn Highton Garry Barclay	5468 01772 625272	22 nd May 2017	IAS report



Mr Gary Hall
Chief Executive
Chorley Borough Council
Town Hall
Market St
Chorley
PR7 1DP

Date 31 March 2017

Dear Gary

**Chorley Borough Council Financial Statements for the year end 31
March 2017**

As you will be aware each year, as your external auditor, we contact you to comply with International Auditing Standards to gain an understanding of the Council's management processes in place to prevent and detect fraud and to ensure compliance with law and regulations. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the enclosed schedule. In completing this task, you may wish to take into account the views of other directors where you think appropriate. The schedule relates to operational issues as well as the financial statements.

In addition to our request to management, we also will need to gain an understanding of how the Governance Committee maintains oversight of the above processes. I have also enclosed, for your information, a copy of the letter that I intend to send to the Chair of the Governance Committee. We suggest that it may be useful to co-ordinate your response with the response from the Chair of the Governance Committee

In preparing your responses it would also be helpful if you could include a summary of evidence you have relied on to inform your responses. If you are in agreement, I would be grateful for your formal response by 1st May 2017. Please note that your response should cover the full twelve month period ending 31st March 2017.

Please feel free to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Simon Hardman

Manager

For Grant Thornton UK LLP T 07880

456202

E simon.hardman@uk.gt.com

Chartered Accountants

Member firm within Grant Thornton International Ltd

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Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP A list of members is available from our registered office.

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Cllr Paul Leadbetter
Governance Committee Chair
Chorley Borough Council
Town Hall
Market St
Chorley
PR7 1DP

Date: 31 March 2017

Dear Cllr Leadbetter

**Chorley Borough Council Financial Statements for the year end 31 March 2017 -
Understanding how the Governance Committee gains assurance from management**

As you will be aware, each year as your external auditor, we contact you to comply with International Auditing Standards to establish an understanding of how the Governance Committee gains assurance over management processes and arrangements.

I am contacting you in your role as the Chair of the Governance Committee, to ask for your responses to the following questions.

- 1 How does the Governance Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?
 - how will the Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Governance Committee gain assurance that all relevant laws and regulations have been complied with by the Council?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a schedule that will help summarise your responses to some of the questions

For information, we are also required to make enquiries of management and recently sent a letter and schedule of questions to the Chief Executive, (the schedule of questions is also enclosed). We suggest that it may be useful to co-ordinate your response with that of management.

If you are in agreement I would be grateful for your formal response by 1st May 2017 to cover the full twelve month period ending 31st March 2017.

Please feel free to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Simon Hardman
Manager
For Grant Thornton UK LLP T
07880 456202
E simon.hardman@uk.gt.com

Appendix C

21st June 2017

Simon Hardman
Grant Thornton UK LLP
1 Hardman Square
Spinningfields
Manchester
M3 3EB

Dear Simon

Audit of Chorley Borough Council Financial Statements – Compliance with International Auditing Standards

With reference to your letter dated 31ST March 2017 in respect of the above, I have now commissioned a review of the management processes that are in place within the Council which address the specific questions you raised.

These are contained in the attached table which was formally reported to and discussed by the Governance Committee on 21st June 2017. I trust that this provides you with the necessary assurances that the Council's arrangements are effective and that there are no specific concerns or issues to report.

Yours sincerely

Gary Hall
Chief Executive
Chorley Borough Council
Town Hall
Market Street
Chorley
PR7 1DP

Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2016/17 and which we should consider as part of our audit approach?	The Council undertook a large land swap with the HCA on 31 st March 2017
Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The Council has considered the appropriateness of the accounting policies. The Council's statement of accounts are prepared in compliance with the Code of Practice 2016/17. The code is prepared under International Financial Reporting Standards (IFRS) which have been adopted as the basis for public sector accounting in the UK. The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts There have not been any events or transactions that may cause CBC to change or adopt new accounting policies.
Are you aware of any changes to the regulatory environment that may have a significant impact on the Authority's financial statements?	No - The Council has the following arrangements in place to advise officers: Monitoring Officer and team of qualified lawyers; Governance Group; Compliance with the CIPFA Code of Conduct for Finance Officers; Standing Orders and Financial Procedure Rules.
How would you assess the quality of the Authority's internal control processes?	The Council has the following robust measures in place: Internal Audit Service compliant with the Public Sector Internal Audit Standards; Annual assessment against the Local Code of Governance (updated 2016). Annually completed Service Assurance Statements. Independent sources of assurance obtained from service areas.
How would you assess the process for reviewing the effectiveness of internal control?	Highlighted areas for improvement included within the Annual Governance Statement. Annual and interim Internal Audit reports to the Governance Committee
How the Authority's risk management do processes link to financial reporting?	Key financial systems reviewed annually by Internal Audit. No significant control weaknesses identified. The introduction of the GRACE risk management software will further strengthen the RM processes.

<p>How would you assess the Authority's arrangements for identifying and responding to the risk of fraud?</p>	<p>Would assess as sound as the following arrangements are in place: Internal Audit Risk Assessment updated over the course of the year. Internal Audit Annual Plan approved by SMT and Governance Committee. Monitoring of management actions by Internal Audit and reporting to Governance Committee. A range of probity policies are in place including: Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response and Anti-Money Laundering policies. Arrangements for responding to fraud are detailed in the Fraud Response Plan (available on the loop).</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit Annual Plan completed. Governance Committee fully informed. The Council has also recently carried out a review of its arrangements against the Fighting Fraud & Corruption Locally – The Local Government Counter Fraud & Corruption Strategy 2016-2019 with the outcome reported to Governance Committee.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>All key financial systems reviewed annually by Internal Audit. No significant control weaknesses identified.</p>
<p>Are you aware of any potential whistle blowing matters or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None for 2016-17</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>None for 2016-17</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Annual and interim reports Internal Audit reports to Governance Committee. External Audit assurance. On-going monitoring and reporting of the Strategic Risk Register to Governance Committee.</p>
<p>As a management team, how do you communicate to employees your views on business practices and ethical behaviour?</p>	<p>The availability of policies and procedures on the loop and promotion through the use of core briefs.</p>
<p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p>	<p>Very little litigation against this Council for uninsured risks. All claims are initially served on the Council's Monitoring Officer who will then advise relevant other officers / members depending on the size and nature of the claim.</p>
<p>Is there any use of financial instruments, including derivatives?</p>	<p>The Council discloses movements in financial instruments in note 16 to the Statement of Accounts. The financial instruments include borrowing, investments, debtors and creditors, all relating to the normal course of business.</p>

<p>Are you aware of any significant transactions outside the normal course of business?</p>	<p>No</p>
<p>Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p>	<p>We are expecting an impairment to the Leigh Arms/Station House due to the work being carried out for the Chorley Youth Zone</p>
<p>Are you aware of any guarantee contracts?</p>	<p>No</p>
<p>Are you aware of allegations of fraud, errors, or other irregularities during the period?</p>	<p>None for 2016-17</p>
<p>Are you aware of any instances of non-compliance with laws or regulations or is the Authority on notice of any such possible instances of non-compliance?</p>	<p>There have been issues of self reporting to ICO concerning potential breaches of obligations under DPA – no action taken by ICO.</p> <p>Disputed application of a Ministerial Statement concerning tariff based section 106 contributions for public open space and affordable housing. Council treated as a material planning consideration that could be overcome by local policies until second statement clarifying status of changes came into force.</p>
<p>Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?</p>	<p>No</p>
<p>Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?</p>	<p>Yes- estimate of BRR RV appeals Yes – accruals for S106 contributions not yet invoiced</p>
<p>Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?</p>	<p>Data from the VOA regarding the settlement of historical appeals and forecasting outcomes on past trend data</p> <p>S106 accruals calculated using</p> <ul style="list-style-type: none"> • figures regarding the occupation of dwellings provided by, developers, Strategic Housing, Council Tax and Waste Management teams. • inflation figures from ONS or other indices specified in S106 agreements, e.g. BCIS Regional Tender Price Index (North West) <p>the S106 agreement was used to calculate the final accrual based on the information above.</p>
<p>What is the status of contingent assets and liabilities reported in prior years?</p>	<p>The contingent liabilities outlined in the 2016/17 statement of accounts remain the same. The contingent assets outlined in the</p>

	<p>2016/17 statement of accounts remain the same.</p>
<p>Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</p>	<p>On 16 March 2016 a second levy of 10% was introduced which increased the cumulative levy payable by the Council to 25% for all future claims settlements. The Council paid £10,564 in 16/17 representing the additional 10% levy on total claims of £105,646. In total, the Council has been liable for net payments of £16,424 in 16/17 under the MMI scheme of arrangement.</p>
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?</p>	<p>Preparation of a 3 year budget projection included in the Medium Term Financial Strategy to identify any financial risks facing the council. Level of un-committed reserves to be increased to £4m by 2018/19</p>
<p>Can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Weightmans – MMI scheme. Bevan Brittan LLP Solicitors – Property Searches litigation.(joint appointment through the LGA) Landmark Chambers – legal advice on Market Walk extension. Kings Chambers Ltd – legal advice relating to land and trespass issues. Forbes Solicitors – landslip claim. Legal Costs Negotiators Ltd – Community Infrastructure Levy. Landmark Chambers – legal advice on land issues. Hill Dickinson – Market Walk redevelopment. Messers Forbes Solicitors – Employment Law Advice.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>WYG Environment Planning Transport Limited provided Highways Consultancy for Planning Appeal LG Futures provided NNDR revaluation modelling and public service reform financial modelling The Networking People (NorthWest) Ltd T/a TNP Ltd - consultancy to review network and develop recommendations ADAS UK Limited - Provisional Agriculture Planning Advice FPCR Environment and Design Limited - Phase III, Clayton Le Woods - Fee for landscape and masterplanning consultancy services Valuation Office Agency - Asset Valuations for Chorley Borough Council Grant Thornton UK LLP - Income Generation - Independent review Whittle and Draper Fine Art – curatorial</p>

	consultancy services at Astley Hall
Have any of the Authority service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None that we are aware of
How have any key issues identified in the prior year as internal control deficiencies been addressed?	Implementation of agreed management actions.

Appendix D

21st June 2017

Simon Hardman
Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

Dear Simon

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Audit of Chorley Borough Council Financial Statements - Compliance with International Auditing Standards

Further to your letter dated 31st March 2017 in respect of the above, please find attached a table providing you with the necessary information that you seek in relation to the specific issues you raised to assist with planning for the 2016/17 financial statements audit:

The attachment was formally reported to and discussed by the Governance Committee on 21st June 2017 and I trust that this provides you with the necessary assurances that the Council's arrangements are effective and that there are no specific concerns or issues to report.

Yours sincerely

Councillor P Leadbetter
Chair of the Governance Committee
Chorley Borough Council
Town Hall
Market Street
Chorley
PR7 1DP

Response from Governance Committee Chair

Fraud risk assessment

Issues	How the Governance Committee demonstrates that it secures the relevant assurances
<p>How does the Governance Committee oversee management's processes in relation to:</p> <ul style="list-style-type: none"> • Carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error • Identifying and responding to the risk of breaches of internal control • identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist) • Communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)? • How will the Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements? 	<p>Receipt of Internal Audit's Annual Report including audit opinion from the Head of Shared Assurance Receipt of assurance from Internal Audit following the review of key financial systems on an annual basis Receipt of Annual Governance Statement Promotion of core values Publicity of Codes of Conduct Approval of the Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response and Anti-Money Laundering polices.</p>
<p>Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details</p>	<p>No - receipt of quarterly Internal Audit reports.</p>
<p>How does the Governance Committee gain assurance that all relevant laws and regulations have been complied with by the Council?</p>	<p>Requirement for the Monitoring Officer to comment on all council and executive decisions. Monitoring Officer attends Governance Committee.</p>
<p>Are you aware of any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Litigation against all local authorities by property search companies in relation to personal search fees. This however has minimal impact as claims now largely settled.</p>

Auditor Question	Response
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?	Fraud risks are considered as part of the Council's risk management arrangements and high risk areas are considered in the Internal Audit risk assessment and Internal Audit plan.
What are the results of this process?	No significant weaknesses identified. The Council also undertook a self assessment against Fighting Fraud & Corruption Locally – The Local Government Counter Fraud & Corruption Strategy 2016-2019 with the outcome reported to Governance Committee.
What processes does the Authority have in place to identify and respond to risks of fraud?	Internal Audit risk assessment annually updated. Internal Audit Annual Plan approved by Governance Committee Promotion of core values. Publicity of Codes of Conduct Whistle-Blowing, Anti-Fraud & Corruption, Fraud Response and Anti-Money Laundering policies. Arrangements for responding to fraud are detailed in the Fraud Response Plan (available on the loop)
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No - we do not currently have any concerns and / or suspect fraud. Fraud risks are considered as part of the Council's risk management arrangements and high risk areas are considered in the Internal Audit risk assessment and Internal Audit plan
Are internal controls, including segregation of duties, in place and operating effectively?	The opinion of the Head of Shared Assurance in the 2016/2017 Internal Audit Annual Report is that the Council continues to operate within a strong internal control environment
If not, where are the risk areas and what mitigating actions have been taken?	All areas considered within the Internal Audit Risk Assessment
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	No
Are there any areas where there is a potential for misreporting?	No
How does the Authority exercise oversight over management's processes for identifying and responding to risks of fraud?	Internal Audit risk assessment Internal Audit Annual Plan agreed by SMT and Governance Committee.

	Monitoring of management actions by Internal Audit and reporting to Governance Committee.
What arrangements are in place to report fraud issues and risks to the Authority?	Annual and interim reports Internal Audit reports to Governance Committee. External Audit assurance On-going monitoring and reporting of the Strategic Risk Register to Governance Committee.
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	On-going promotion of core values Register of interests / gifts and hospitality Adherence to Codes of Conduct Ethical guidance / policies on the need to know section of the intranet Zero tolerance of fraud. Local Code of Corporate Governance Compliance with corporate policies relating to Whistle Blowing, Anti-Fraud and Corruption and Anti money laundering Internal Audit has time dedicated to fraud awareness / anti-fraud and corruption in the annual plan. Contract Procedure Rules require contractors to have policies that mirror the Councils or use Council policies.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Governance documents including the Whistleblowing Policy, Anti-Fraud and Corruption Strategy and Fraud Response Plan are all available on the intranet. No significant issues reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	We do checks every year as part of closure of accounts process and run extracts from CRs to test
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 April 2016?	No



Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	21 st June 2017

INTERNAL AUDIT ANNUAL REPORT 2016/17

PURPOSES OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2016/17 financial year;
2. To give an opinion on the adequacy and effectiveness of the Council’s framework of governance, risk management and control;
3. To give an appraisal of the Internal Audit Service’s performance, including a review of the Council’s internal control system.

RECOMMENDATION

4. That the Internal Audit Annual Report for 2016/17 be noted.

EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2016/17 Internal Audit programme of work. The results provide members with assurance that the Council’s governance and control environment continues to be effective. The introduction of the Governance, Risk and Control Self-Assessment (GRACE) software will strengthen the current risk management arrangements.

Confidential report	Yes	<u>No</u>
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CORPORATE PRIORITIES

6. This report relates to the following strategic objectives.

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

7. **Appendix 1** to this report provides a detailed account of the individual audits undertaken in respect of Chorley Council and Shared Services during the 2016/17 financial year. It shows the approach taken, the controls assurance rating that was awarded and a summary of any actions that have been agreed with management to further improve controls within all the areas audited.
8. The following tables also provide an analysis of the planned and actual auditor days used during the year together with an explanation of any variations that have occurred.

Chorley Council

	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken	255	245	(10)
Audits not undertaken			
• Payroll Project	10	0	(10)
• Health and Safety	15	0	(15)
Contingency	65	74	9
TOTALS	345	319	(26)

9. With regard to audits not undertaken, the Payroll Project has been cancelled with the continuation of the current arrangements. The review of Health and Safety was deferred due to a revised risk assessment process which is currently being developed and this review will now be undertaken as part of the 2017/18 Internal Audit Plan.

Shared Services

	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken	95	88	(7)
Contingency	50	41	(9)
TOTALS	145	129	(16)

10. The (26 + 16) 42 days shortfall in the number of planned days for both Chorley Council and Shared Services is offset by a period of sickness absence by a member of the Internal Audit Team.

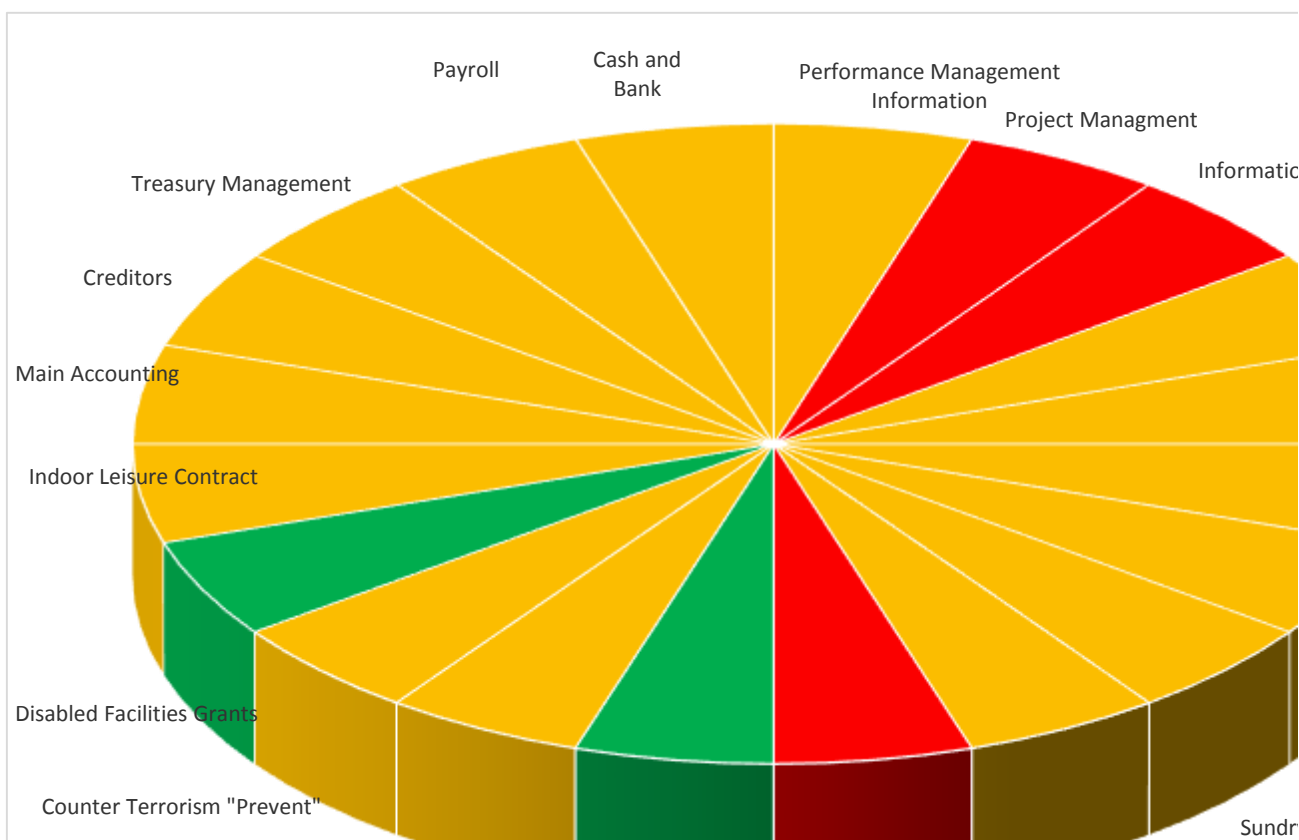
INTERNAL AUDIT OPINION

11. Public Sector Internal Audit Standards (PSIAS) require the “Head of Internal Audit” to give an opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. This responsibility falls on the Head of Shared Assurance Services on behalf of Chorley Council.

12. Members will recall that individual audits are awarded a separate controls assurance rating from the following matrix:

Control Rating	Limited	4	7	9
	Adequate	2	5	8
	Substantial	1	3	6
		Minor	Major	Critical
		Risk Rating		

13. Risk ratings (minor / major / critical) are inherent to each system/area audited and they reflect the impact that they would have on the Council in financial and/or reputational terms if they were to fail.
14. Control ratings (substantial / adequate / limited) are awarded after the audit is completed to reflect the level of internal control that is present in each system/area audited.
15. During 2016/17 a total of 20 systems/areas were reviewed, 11 of which were critical and 8 were major systems and 1 minor system. The chart below shows the controls assurance ratings that were awarded for the individual audits undertaken during the year:



16. The vast majority were awarded an amber assurance rating. Of the 11 critical systems reviewed during 2016/17, 10 received a score of 6 (substantial assurance). Furthermore of the red controls assurance ratings awarded only one audit, Information Governance received a score of 9 (limited assurance). **Therefore when the individual ratings are aggregated it is our conclusion that the Council continues to operate within a strong control environment.**

17. Members are also reminded that the control ratings shown relate to the point in time when the respective audit reports were issued during course of the year. They therefore represent a historical rather than a current judgement as managers have been charged with implementing corrective actions to address the control issues raised, which in turn has been supported by a programme of follow-up reviews by the Internal Audit Service.

INTERNAL AUDIT PERFORMANCE

Key Performance Indicators

18. The table at **Appendix 2** summarises the key performance data for the Internal Audit Service during 2016/17 and demonstrates that the majority of performance indicators have either been achieved or exceeded with explanations for any variances provided on the Appendix.

ISO 9001:2008

19. In January Internal Audit retained ISO 9001 accreditation for its Quality Assurance System which is continuously updated to reflect any changes in working practices. Retention of the standard demonstrates that the Audit Team is continuing to seek improved and more efficient working practices to maintain a high quality service.

GRACE Risk Management

20. Training has now been delivered to over 40 officers on the use of the GRACE risk management system and currently risks and controls are in the process of being updated. These will form the basis for our reviews during 2017/18.

Follow up of Agreed Management Actions

21. During 2016/17, MyProjects (the Council's project management software) was utilized to monitor the implementation of agreed management actions. This improvement allows managers to continuously update progress against each action and enables accurate and up to date reporting.

INTERNAL CONTROL SYSTEM

22. The Accounts and Audit Regulations 2015 require the Council to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account Public Sector Internal Audit Standards (PSIAS) or guidance".
23. We have therefore undertaken our annual self-assessment of compliance with the PSIAS and have concluded that the Service meets all aspects of the Standards. Members will recall that the Council needs to arrange an independent external assessment at least once every 5 years and that it was agreed that we would participate with the Lancashire District Councils Audit Group in undertaking reciprocal peer reviews. In the last 12 months we have, in conjunction with Preston City Council, carried out the review of Fylde Council Internal Audit Service with the review of Preston due to be carried out during June / July 2017. It is planned that the above 2 Councils will carry out the review of our compliance with the Standards in March 2018.
24. The regulations also require that "an authority must conduct a review of the effectiveness of the system of internal control". In addition to preparing an annual governance statement, other independent sources of assurance obtained by the Council are also considered.
25. Directors have therefore provided examples of these which include: QUEST accreditation for Sport and Play Service; Museums accreditation for Astley Hall; Public Services Network approval; Electoral Commission performance standards for electoral registrations and

delivery of elections and 3 qualified SFEDI Business Advisors in Economic Development (Small Firms Enterprise Development Initiative), Food Standards Agency audits of inspections and enforcement.

26. **This evidence further supports our overall opinion that the Council continues to operate within a strong control environment.**

IMPLICATIONS OF THE REPORT

27. This report has no implications for specific services. The matters raised in the report are cross cutting and impact upon the authority as a whole.

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

Background Papers			
Document	Date	File	Place of Inspection
Internal Audit Plan Risk Assessment	2016/17	Shared Assurance Services	Civic Centre Leyland

Report Authors	Ext	Date	Doc ID
Garry Barclay Dawn Highton	(01772) 625272 (01257) 515468	June 2017	Annual Report.doc

APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2016/17

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
CHORLEY COUNCIL			
Annual Governance Statement	To co-ordinate a review of the system of governance and highlight any improvement actions to include in the Annual Governance Statement.	Not applicable	Proactive input was provided rather than an audit review. A gap analysis was produced showing areas of improvement which were summarised in Section 5 of the Annual Governance Statement 2017.
Anti-Fraud & Corruption	To provide generic fraud awareness training and issue information bulletins highlighting specific fraud risks.	Not applicable	Proactive input provided rather than an audit / review
National Fraud Initiative (NFI)	To co-ordinate the Council's input to the 2016/17 exercise.	Not applicable	The results from the exercise were released in January 2017 and are currently being reviewed.
Performance Information.	To undertake a review to ensure compliance with the Council's Data Quality Policy by Customer, ICT & Transactional	Amber (6)	No key control issues were identified
Project Management	This review focussed on the application of the Project Management Toolkit and the utilisation of the Council's project management software – MyProjects.	Red (7)	<p>All the projects included within this review are on track to be delivered and there is comprehensive guidance and extensive project documentation for Senior Responsible Officers and Project Managers use. We found however, that neither the Toolkit nor MyProjects are being consistently used across the authority.</p> <p>As there is limited resource to monitor project management centrally, Senior Responsible Officers and Project Managers must ensure that projects are managed in accordance with the Toolkit and that MyProjects is fully utilised. A range of management actions were agreed to achieve this.</p>
Events Management (Internal)	The audit was replaced with the Review of Land and Property Records (see below)		

Information Governance	This review assessed the arrangements and controls being put in place by management to develop the Council's information governance framework to deliver an effective security culture and ensure ongoing compliance with its information security obligations.	Red (9)	Although it is recognised that there are a number of positive solutions and processes in place and a commitment to address a number of the key issues identified during the audit, we were only able to provide a Red, (9) rating principally due to the current stage of development of the Council's overarching information governance arrangements.
Land Charges	The aim of this review was to seek assurance that the key systems for the control and operation of the Land Charges Register, the administration and processing of land search applications and the receipt and control of payments are adequate and operating effectively.	Amber (5)	Although, there are generally good processes in place for land charges, some areas were identified where improvements could be made to strengthen the current arrangements including: The introduction of random management checks to confirm the accuracy of the register; Implementing a system to remove obligations once the liability ceases; Reviewing the current fees and charges.
Housing Benefit, Council Tax and Non-Domestic Rates (NDR) & Sundry Debtors	To verify that controls in place in respect of the Housing Benefit, Council Tax and NDR systems are adequate and operating effectively.	Amber (6)	No key control issues were identified.
Review of Stores	The purpose of the review was to determine that sound arrangements are in place for the management and control of stores.	Amber (4)	Although the value of stores is relatively low, the stores should operate in accordance with the Council's Financial Procedure Rules. A manual system was in place at the time of our last review, however this system is no longer operational and our work confirmed that all stock could not be accounted for due to the lack of records controlling levels of stock, receipts and issues.
Review of Fuel Consumption	The purpose of the review was to determine that sound arrangements are in place for the management and control of fuel consumption.	Red (7)	Our work established that since our last review a number of controls, which were in place and working as intended have lapsed. These include: The Chest not being utilised for all fuel procurement; There is no individual driver ID to monitor specific users; Fuel usage is not being monitored or analysed per individual vehicle; Fuel card expenditure is not being reconciled to the total invoiced.
Building Control	This audit was been carried out to provide management with assurance or otherwise that the procedures in place for Building Control are adequate and operating effectively.	Green (3)	Our opinion is principally based on the work undertaken by the Building Control Team to ensure that all applications received for new buildings, alterations and demolitions are effectively recorded, vetted and processed in line with regulations including in respect of fees charged and collected and inspections undertaken. There are areas, however, where improvements can be made to enhance the processes already in place. In particular, the need to review the application and inspection fees charged, and a consideration of lone working arrangements for

			Building Control officers.
Review of Safeguarding	As safeguarding can potentially affect all officers and functions, our work concentrated on the Council's corporate arrangements. The Section 11 Audit Toolkit used by the Lancashire Safeguarding Children Board was used as the basis for our review.	Amber (5)	Our work established that safeguarding policies are in place and that robust mechanisms for reporting and referrals have been established. However, improvements are needed to update the policies with the new designated safeguarding officers (DSOs), and there are training & awareness needs in some service areas.
Counter Terrorism "Prevent Duty"	Section 26 of the Counter-Terrorism and Security Act 2015 (the Act) places a duty on the Council, in the exercise of its functions, to have due regard to the need to prevent people from being drawn into terrorism. The 'Prevent Duty' commenced for local authorities on 1 July 2015. This is a new area of responsibility for the Council which has not previously been audited. The audit was undertaken to provide assurance that the council's arrangements, procedures and processes in relation to delivering the Prevent Duty are robust, efficient and effective	Amber (5)	A significant proportion of staff have been trained and officers actively engage in multi-agency activity. However, as the Prevent Duty is a relatively new requirement, not all arrangements are in place yet and some processes need further development including: <ul style="list-style-type: none"> • Developing Prevent referral procedures for Designated Safeguarding Officers • Extending the use of web filtering to include mobile devices and public WIFI points. • Adopting a corporate standard clause for property (commercial/other) and hire leases/agreements prohibiting the use of Council property for any extremist purposes. • Ensuring that relevant frontline staff, of commissioned services, meet the Prevent Duty training requirements and know who to contact should an issue arise. • Agreeing a Prevent training strategy and programme (for Officers, Members, casual and voluntary staff) that is appropriate to roles and the delivery of a refresher training programme.
Disabled Facilities Grants & Integrated Home Improvement Service	The purpose of the review was to assess the effectiveness of the arrangements established by the Council to deliver the various services and grants available.	Green (3)	No key control issues were identified.
Indoor Leisure Contract	As the Indoor Leisure Contract is a key partnership for the Council, the Key Partnership's Framework which sets out a range of controls and measures to ensure the success of partnership arrangements and the achievement of the Council's strategic objectives formed the basis of our review.	Amber (5)	Our review found that although the current framework is generally being complied with, there were areas for improvement including data quality, business continuity and reviewing and updating the joint risk register.

Section 106 / Community Infrastructure Levy	Following the identification of missed trigger points in 2015/16 an investigation to ascertain the status of the control records relating to S.106 and Community Infrastructure Levy (CIL) was undertaken by Internal Audit. This work identified numerous internal control weaknesses within the Council's S.106 arrangements and a number of management actions were agreed and implemented during 2015/16 to mitigate these weaknesses. This review is to be undertaken in accordance with the Internal Audit Plan 2016/17 to give assurance that the new processes now in place are effective.		The fieldwork for this review is in progress. An update will be provided to the Committee in our first progress report.
Review of Land and Property Records	<p>In conjunction with all the Lancashire local authorities Chorley Council is participating in the One Public Estate programme. Each authority must upload land and property assets data onto the ePIMS Lite system.</p> <p>The purpose of this review was to review the way in which property/land data is retained by the Council and to determine if it is accurate, complete and up to date and available for submission to ePIMS.</p>	Not applicable	Although the data was submitted to ePims, a range of improvements were agreed to strengthen the current arrangements. Internal Audit will continue to be involved with the development of any new processes which are currently explored.
Bank Hall Project	<p>This was an unplanned review undertaken at the request of the CEO. The Council has been asked to be the accountable body by the Heritage Lottery Fund (HLF) for the £2.2m grant awarded by them to the The Heritage Trust for the North West (HTNW) charity for the development at Bank Hall, Bretherton.</p> <p>The purpose of the review was to verify the expenditure incurred since the start of the project in 2009.</p>	Not applicable	All expenditure incurred to date could be verified and the Council is not exposed to any financial risk should the project fail to be delivered.

Post Audit Reviews	To ensure that agreed management actions have taken place to address the control issues identified in Internal Audit reports.	Not applicable	All relevant management actions implemented in a timely manner
SHARED SERVICES			
Main Accounting	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Creditors	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Payroll	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Treasury Management	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Cash & Bank	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Post Audit Reviews	To ensure that agreed management actions have taken place to address the control issues identified in Internal Audit reports.	Not applicable	All relevant management actions implemented in a timely manner

INTERNAL AUDIT PERFORMANCE INDICATORS 2016-17

	Indicator	Audit Plan	Target 2016/17	Actual	Comments
1	% of planned time used	SS	90%	90%	Target achieved
		CBC	90%	92%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		CBC	100%	89%	Audit of Health & Safety deferred to 2017/18. Audit of S106 / CIL in progress
3	% management actions agreed	SS	98%	100%	Target exceeded
		CBC	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	100%	Target exceeded
		CBC	90%	97%	Target exceeded

SS = Shared Services
CBC = Chorley

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